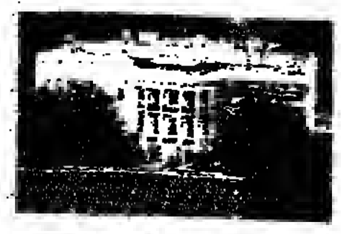
# FINANCIAL TIMES



**Primary Colors**
*Washington's best kept secret*
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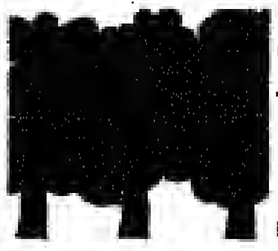

**The pulp market**
*Bungee jumping without a cord*
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**UK trade unions**
*Turning their backs on history*
Page 7

**Singapore**
*Journey without ending*
Survey, Separate Section

World Business Newspaper
THURSDAY FEBRUARY 8 1996

## Charter jet crash kills 189 in Caribbean

A Boeing 757 charter jet carrying 189 people, most of them German tourists, crashed soon after takeoff from the Dominican Republic in the Caribbean. All those aboard the German-bound flight were feared dead at least 45 bodies were recovered. Rescuers spotted empty life rafts and saw sharks circling the wreckage. The aircraft's Turkish owners and the head of the German company that organised the holiday said Dominican officials had told them the crash might have been caused by lightning. Page 3

**Dublin suggests N Ireland talks move**

The Dublin government yesterday proposed a Dayton-style conference to move Northern Ireland's political parties towards all-party talks. The surprise announcement by Irish deputy prime minister Dick Spring (left) came after talks with Sir Patrick Mayhew, Britain's Northern Ireland secretary. It received a cool response from UK ministers and a furious one from pro-British parties in the province. Page 12; Optimism on ceasefire, Page 6

**Videotron bows out:** Videotron, the big Canadian cable TV group, is trying to sell its 56 per cent stake in Videotron Holdings, the UK cable company. Page 6

**BT's German venture to cost £1.3bn:** In British Telecommunications and big German industrial groups RWE and Viag plan to spend DM3bn-DM4bn ($2bn-$2.7bn) building a German telephone network over the next four or five years. Page 13; Price cap, Page 6; Lex, Page 12

**Split over Eurotunnel:** Bankers owed £9bn ($12bn) by Eurotunnel are split over whether to take a hard line in negotiations over the Channel tunnel operator's crucial refinancing. Page 13

**Airbus plans 'superjumbo':** Europe's Airbus Industrie consortium, keen to compete in the big aircraft market with with Boeing of the US, announced plans to launch its own "superjumbo" jet in the next two years. Codenamed A3XX, it would carry 550 passengers.

**Aftershocks jolt Lijiang:** People in the Lijiang region of China's Yunnan province were warned not to go home as a series of aftershocks toppled houses first damaged in a earthquake which claimed 255 lives last week.

**UN seeks $100m for Sudan:** The United Nations appealed for over $100m to help about 4.5m people who risk starvation in Sudan's intensifying civil war.

**CFCs 'guilty' over ozone layer:** US space scientists at Nasa say chlorofluorocarbons are guilty "beyond reasonable doubt" of destroying the earth's ozone layer and and letting in damaging ultraviolet light.

**Sears Roebuck:** The biggest US department store group shrugged off retail sector gloom with a 27.6 per cent jump in underlying net profits to $455m in the fourth quarter. Page 13

**Tigers attack:** Separatist Tamil Tiger guerrillas killed 11 Sri Lankan soldiers in the east of the country. The attack was the first big rebel strike in the east since a bomb killed more than 80 people in the capital Colombo last Wednesday.

**Ex-officer held:** Retired Russian naval officer Alexander Nikitin, who collected information on the dangers of nuclear waste for a Norwegian environmental group, was arrested in St Petersburg for alleged spying, the Oslo-based Bellona Foundation said.

**High art:** A group of Bulgarian musicians and actors plans to stage the world's highest concert on *Mount Everest - provided* it can find sponsors.

**CHRISTOPHER LORENZ**

Christopher Lorenz, FT management editor since 1977, died yesterday at the age of 49 after a long illness. An appreciation of his life and work will appear tomorrow.

**■ STOCK MARKET INDICES**

| | | |
|---|---|---|
| **New York: lunchtime** | | |
| Dow Jones Ind Av | 5,458.16 | (-1.45) |
| NASDAQ Composite | 1,081.59 | (-7.49) |
| **Europe and Far East** | | |
| CAC40 | 1,983.29 | (-5.18) |
| DAX | 2,446.16 | (+17.88) |
| FT-SE 100 | 3,728.1 | (-21.4) |
| Nikkei | 20,943.49 | (+192.34) |

**■ US LUNCHTIME RATES**

| | |
|---|---|
| Federal Funds | 5⅛% |
| 3-mth Treas Bills: Yld | 4.94% |
| Long Bond | 109⅞ |
| Yield | 6.15% |

**■ OTHER RATES**

| | | |
|---|---|---|
| UK: 3-mo Interbank | 6 3/16% | (6 7/32%) |
| UK: 10 yr Gilt | 98 11/32 | (98⅝) |
| France: 10 yr OAT | 105.4 | (105.3) |
| Germany: 10 yr Bund | 99.6 | (99.35) |
| Japan: 10 yr JGB | 111.43 | (111.204) |

**■ NORTH SEA OIL (Argus)**

| | | |
|---|---|---|
| Brent 15-day (Mar) | $16.66 | (16.62) |

**■ GOLD**

| | | |
|---|---|---|
| **New York: Comex** | | |
| (Apr) | $411.40 | (414.6) |
| **London:** | | |
| close | $412.25 | (411.0) |

**■ DOLLAR**

| | | |
|---|---|---|
| **New York: lunchtime** | | |
| £ | 1.536 | |
| DM | 1.477 | |
| FFr | 5.073 | |
| SFr | 1.2075 | |
| Y | 106.035 | |
| **London:** | | |
| £ | 1.5379 | (1.5404) |
| DM | 1.4773 | (1.4718) |
| FFr | 5.0743 | (5.0576) |
| SFr | 1.2064 | (1.2015) |
| Y | 106.025 | (105.57) |

**■ STERLING**

| | | |
|---|---|---|
| DM | 2.2719 | (2.2671) |
| Tokyo close: | Y 105.05 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Albania | LEK 230 | Germany | DM4.00 | Lithuania | Lts 15.00 | Qatar | QR13.00 |
| Austria | Sch37 | Greece | Dr400 | Lux | LFr75 | S.Arabia | SR12 |
| Bahrain | Din1.250 | Hong Kong | HK$20 | Malta | Lm0.85 | Singapore | S$4.30 |
| Belgium | BFr75 | Hungary | Ft230 | Morocco | MDh16 | Slovak Rp | Sk65 |
| Bulgaria | Lw130.00 | Iceland | IKr230 | Neth | Fl 4.75 | S. Africa | R12.00 |
| Cyprus | C£1.20 | India | Rs75 | Nigeria | Naira90 | Spain | Pta250 |
| Czech Rp | Kc60 | Israel | Shk7.90 | Norway | NKr20.00 | Sweden | SKr20 |
| Denmark | DKr18 | Italy | L3200 | Oman | OR1.50 | Switz | SFr3.70 |
| Egypt | E£5.00 | Japan | Y500 | Pakistan | Rs40 | Syria | S£65.00 |
| Estonia | Ekr 22 | Jordan | JD1.50 | Poland | Zl 6.50 | Tunisia | Din1.750 |
| Finland | FM15.50 | Kuwait | Fils 650 | Portugal (mainland) | Esc240 | Turkey | L70,000 |
| France | FFr11.50 | Lebanon | US$3.00 | | | UAE | Dh12.00 |

# Tokyo finance ministry under threat

## Japan's PM approves first study into possible break-up

By William Dawkins in Tokyo

Mr Ryutaro Hashimoto, the Japanese prime minister, yesterday gave his assent to a government study into the possible break-up of Tokyo's finance ministry, the most powerful bureaucracy in the industrialised world.

The move will expose the centre of financial power in the world's second largest economy to detailed official scrutiny for the first time.

The ministry's critics allege it has inappropriately wide powers, covering budget, taxation, banking, the securities industry and customs, in contrast to other industrialised countries which keep some or all of these functions in separate bureaucracies.

Mr Hashimoto, responding to pressure from younger members of his ruling Liberal Democratic party and the opposition to curb the scope of the ministry's power, said: "Such discussion will be needed ... I am aware of the problem."

The finance ministry's future is to be studied by a government coalition panel on administrative reform set up this week. It is to produce an outline plan, possibly for a financial agency separate from the rest of the ministry, soon after the budget passes parliament. This is expected by the end of March.

Until yesterday, the Japanese leader had been non-committal on the subject, sensitive to powerful older members of the LDP who are eager to preserve their close ties with the bureaucracy.

But Mr Hashimoto's hand appears to have been forced by mounting criticism of an unpopular plan to use public cash to liquidate bankrupt housing loan companies, or *jusen*.

The attack came to a head on Tuesday when three cabinet ministers called for the ministry to be reorganised to reduce the risk of future financial calamities.

The finance ministry's wide powers date from its foundation in 1869 as the architect of Japan's rapid industrialisation. During the post-war years, the ministry was able to mobilise public savings and channel low cost funds to strategic industries, while sheltering them from foreign competition.

The main option being discussed by the LDP is to shift the ministry's banking, securities and international finance bureaux into a separate agency – the suggestion of Mr Koichi Kato, the party's secretary-general.

Political analysts in Tokyo

Continued on Page 12
Japan's account surplus, Page 5
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Closer links with NEC and Bull

# Packard Bell pacts signal global shake-up

By Louise Kehoe in California, David Buchan in Paris and Michiyo Nakamoto in Tokyo

A restructuring of the worldwide $120bn-a-year personal computer industry appeared likely yesterday after Packard Bell, the leading US supplier of home computers, announced a significant extension of its links with manufacturers in Europe and Japan.

Packard Bell will receive a cash injection of $283m from NEC of Japan and will acquire the assets of Zenith Data Systems, the struggling PC subsidiary of France's Groupe Bull, valued at $367m.

The three-way agreement signals a new phase of consolidation in the industry where some of the largest manufacturers, as well as many smaller companies in the US and Europe, have seen profit margins eroded by falling prices.

The combined operations of ZDS, which shipped around 600,000 PCs last year, and Packard Bell will create a company with annual revenues of $5.5bn based on last year's figures, making it one of the world's largest PC companies. Packard Bell claimed the deal would move it into top position in the US, measured in unit sales, with a market share of about 13 per cent.

Last year, Packard Bell was the fourth largest PC producer in the world after Compaq Computer, International Business Machines and Apple Computer.

Packard Bell will become a "global computer power", said Mr Beny Alagem, president and chief executive. The combination of ZDS and Packard Bell "puts the company in a strong position to compete across all sectors of the computer industry in both US and international markets".

The US company, which is privately owned, did not reveal all details of the agreement. However, both NEC and Groupe Bull will receive non-voting preferred shares in Packard Bell. NEC and Groupe Bull already each hold 19.9 per cent stakes in Packard Bell, and NEC holds a 17 per cent stake in Bull, so the agreement represents an expansion of earlier alliances between the three.

NEC paid $170m for its stake in Packard Bell last year and the companies agreed to collaborate in the development of multimedia technologies.

Packard Bell also has long standing ties with Groupe Bull and manufactures PCs in Angers, France, under contract to ZDS.

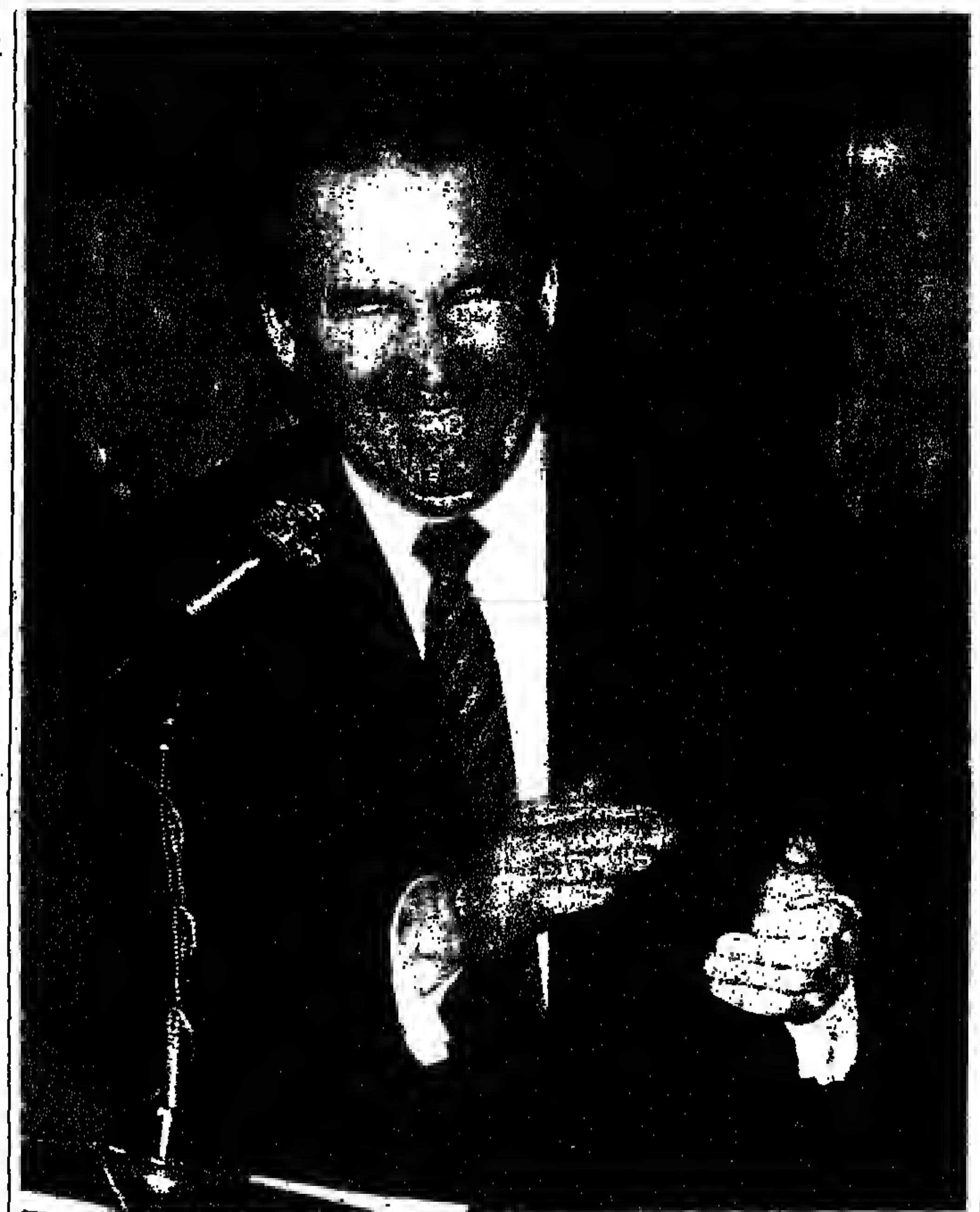
US industry analysts said that the deal would give Packard Bell a much needed cash injection to continue its rapid growth, while also enabling the company to expand beyond the home computer market sector.

Yesterday Mr Jamie Muir, managing director of Packard Bell in the UK, denied that the deal respresented a rescue. "It is part of our overall plan to create a global business."

NEC said its additional investment in Packard Bell was aimed at strengthening its relationship with the US company. But in Tokyo the move was also seen as a decision by NEC to provide financial assistance to the new company and through there, indirectly to Bull.

Packard Bell emerged as a major force in PCs in 1994, when its sales volume more than doubled from 787,000 to 1.99m units. The company for years had concentrated on building relationships with retailers.

Peter Martin, Page 10; Lex, Page 12; New money, Page 14



Pat Buchanan, who is running for the US Republican party's presidential nomination, enjoys his poll win over Senator Phil Gramm in the Louisiana party caucuses during a victory celebration in Baton Rouge. Buchanan won 62 per cent in the vote of about 30,000 party members. Page 12; Drop in US trade deficit, Page 3; A moral message, Page 10 Picture: AP

# Brussels shelves portable pensions proposals

By Emma Tucker in Brussels

The European Commission yesterday shelved proposals to make occupational pensions portable within the EU in a decision which highlights the reluctance of Brussels to challenge member countries on sensitive issues.

The failure to agree on early legislation to cover cross-border transfers of occupational pensions was seen by some officials as a setback for freedom of movement by workers within the EU. "This is not an area that the Commission should be entering into at this stage," one commissioner said.

Opposition was led by Germany, which is worried that EU-wide laws would require changes to a pension system intended to encourage company loyalty. In Germany, workers have to wait 10 years to qualify for most company pension schemes.

There is now no mechanism to allow a worker moving from one country to another to maintain or transfer a private pension. The result is that workers lose benefits and finish their careers with significantly reduced entitlements if they switch countries.

Mr Padraig Flynn, the commissioner for social affairs, had wanted Commission approval yesterday to begin drafting

Continued on Page 12

# Fierce battle likely for UK's second largest pharmacy chain

By Peggy Hollinger in London

Gehe of Germany, Europe's largest drugs wholesaler, yesterday launched a £584m ($899m) cash bid for Britain's second biggest pharmacy retailer, Lloyds Chemists.

Its move followed a £526m cash and share bid from the British company Unichem. A fierce battle is now likely between the two groups.

UniChem, which had hoped to forge the UK's largest pharmacy chain by merging LLoyds' 924 outlets with its 424, is widely expected to increase its offer.

UniChem yesterday advised Lloyds shareholders to take no action on Gehe's bid. It said it was "considering its response" and a further announcement would be made in due course. The company is unlikely to retaliate this week.

Gehe yesterday trumped UniChem's cash and share offer with a cash bid of 450p per share, valuing the ordinary stock at £553m. It is also offering 290p per preference share, making tha total bid worth £584.3m. This compares with UniChem's offer of 408p per ordinary and 263p per preference share. Lloyds shares closed last night 23p up at 467p; the preference shares rose 15p to 297p.

Gehe was confident yesterday that it would be able to win control of LLoyds.

It plans to integrate Lloyds with the 295 pharmacies and and wholesaling business acquired following the £400m purchase last May of AAH, the UK drugs wholesaler.

Mr Diater Kämmerer, Gehe's chief executive, said the group did not intend to retain the pharmacy business, and would review its options on the other operations such as the healthfood chain Holland & Barrett.

Mr Kämmerer said the UK retail market was attractive because ownership of retail pharmacy chains was forbidden elsewhere in Europe. Margins were also higher in the retail division than in wholesaling.

However, the market was last night expecting that UniChem would not abandon its bid. Analysts suggested it could not afford to lose. They said Gehe would gain a key foothold in a market where future growth could be restricted by increasingly tight government price regimes.

Investors were also waiting for a bid battle to unfold, saying that if UniChem responded, they expected Gehe to retaliate.

"Whoever loses will be really hard pressed," said one substantial investor. "That is why we can imagine people paying up."

Analysts said UniChem would have to pitch a new bid at about 480p to win, although this could prove difficult. UniChem was already stretching its balance sheet to fund the current bid.

Lex, Page 12

CONTENTS

# Drug name puts maker's health at risk

By Caroline Southey in Brussels

A small company in the Belgian city of Liège has become enmeshed in a bizarre struggle with bureaucrats in Brussels over registration of its life-saving medicine for salmon.

The problem "would not have arisen", said a Commission official, if the drug had been called something other than somatosalm. "An emotional link" had been made with bovine somatotrophin (BST), a banned drug which boosts milk production.

"From the scientific evidence it is clear there is no human health risk from somatosalm," the official said.

The future of the company, Pharos, rests largely on the EU agreeing to give the drug the all-clear. But three years after it was developed, and 18 months after the company took the first steps to have the drug recognised, Brussels officials, nervous about drugs used in food production, are threatening to scupper the project.

The choice of name for the salmon drug was made by the World Health Organisation, which is charged with christening new medicines.

Somatosalm "has a similar protein structure to BST, which is why it got its name", said Mr André Renard, a director of the company. "But that does not mean it produces the same results." The EU banned BST until the end of the century as a result of public concern about its potential effects.

The first sign of trouble came last week when Pharos heard indirectly – after several months' silence – that a Brussels regulatory committee had vetoed the drug. "Officially we know nothing," said Mr Renard. "It's very frustrating because this is our first drug."

But the EU committee of lay and technical advisers appointed by national governments refused to give the drug the all-clear because they feared that because it comes from the same somatotrophin family as BST it would have the same effect as BST. Delegations from four EU countries voted against, while six abstained.

An EU official said: "There is firm resistance because people believe it will open the back door for BST and we don't want BST legalised."

Experts in animal husbandry have criticised the decision. "The drugs are used in completely different contexts. Somatosalm is used for the efficient rearing of salmon. This has nothing to do with enhancing milk yields," said Mr Johan Vanhemelrijck, secretary general of the European Federation of Animal Health.

Pharos, which employs 35 people and has a market capitalisation of $10m, designed somatosalm to reduce the mortality rate in salmon by helping the fish make physical adjustments when moving from fresh to salt water, a process known as osmoregulation.

The future of the drug now rests with the Council of Ministers which has the power to overturn the committee's decision. "If people just read the dossier, everything will be okay," said Mr Renard.

## Solidarity surcharge proposals spark cross-party opposition

# States unite to confront Kohl

By Peter Norman in Bonn

It is a foregone conclusion that when Germany's chancellor Helmut Kohl meets the prime ministers of the country's 16 federal states, or Länder, today there will be no accord over Bonn's plans to cut the much hated solidarity surcharge tax at Länder expense from the middle of next year.

The German leader, whose career has been based on forging compromises in coalitions, will face a united front of regional grandees that crosses party lines. Alongside five federal prime ministers from his own Christian Democratic Union and one from its Bavarian sister party, the Christian Social Union, will be 10 state leaders from the opposition Social Democratic party.

The surcharge was set on January 1 1995 to help pay the costs of unification and is levied on the income and corporation tax liability of individuals and companies.

The united front of state leaders, forged last weekend, owes much to the inept way Mr Kohl's cabinet reached agreement on plans to cut the surcharge from 7.5 per cent to 5.5 per cent from July 1 1997.

The immediate cause of their anger is the way Mr Theo Waigel, the finance minister and CSU leader, decided that DM3bn (£1.3bn) of next year's DM4bn cost of the surcharge reduction should be charged to state budgets through reducing their share of value added tax receipts. In spite of a clear commitment to review the surcharge annually and "jointly with the Länder", Mr Kohl's government announced its plans without prior discussion with the states.

The alliance also shows how Germany's state politicians are prepared to pursue policies without regard to conventional party affiliations, and that they are increasingly prepared to flex their muscles against the coalition in Bonn.

The states' reaction to the surcharge proposals, which are widely seen as an attempt to appease the small Free Democrat member of the Bonn coalition, was summed up by Mr Edmund Stoiber, CSU prime minister of Bavaria: "You can't just go shopping and throw the bill in your neighbour's letter box."

Disputes between the states and the federal government have been a recurrent theme in post-war German politics. This is primarily because the share of tax revenues accruing to the federal government, the states and local authorities depends on periodic negotiations over how to distribute income raised by various taxes. The states have no right to raise taxes autonomously.

After the surcharge plans became known, Mr Erwin Huber, Bavaria's finance minister and a senior CSU figure, said the most Mr Waigel could expect of him was "solidarity but no money".

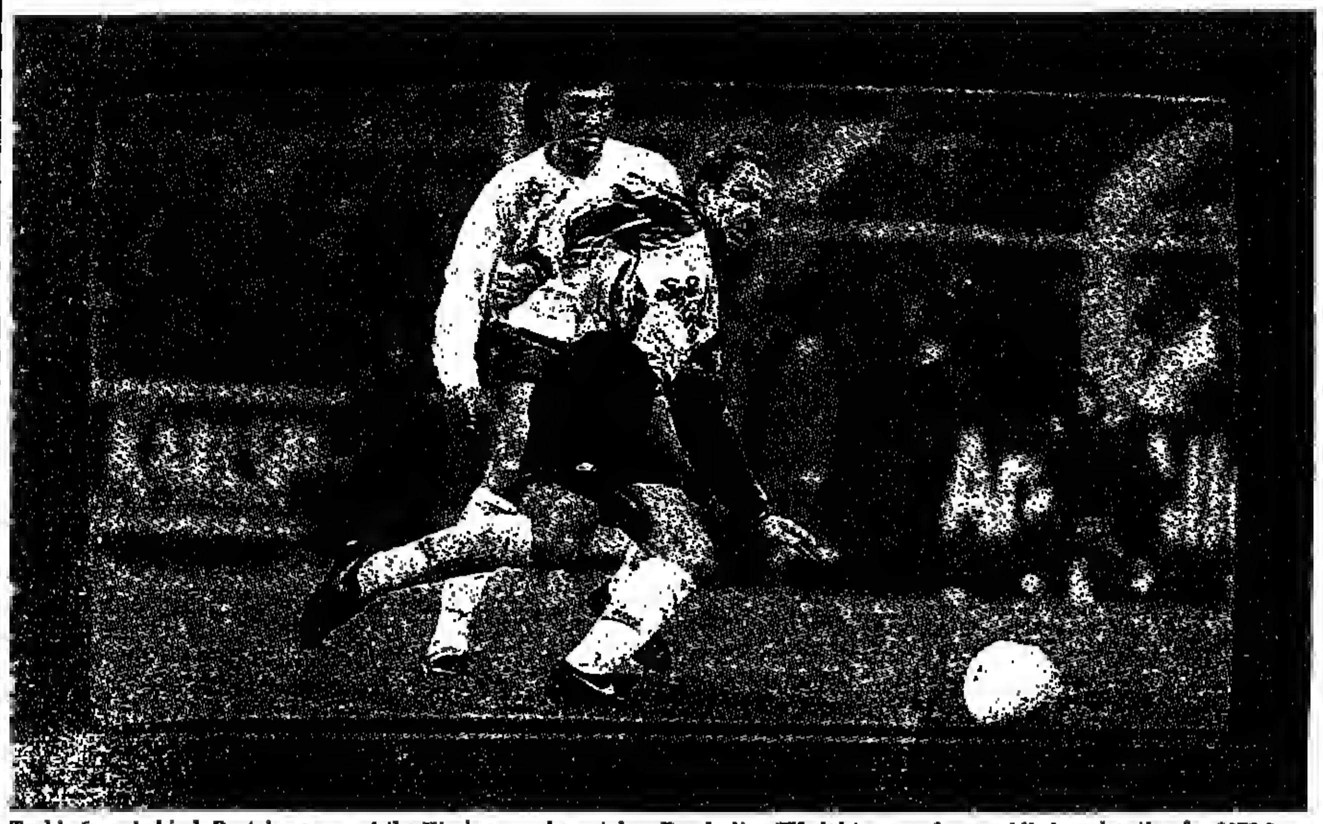
By contrast, shared economic problems have propelled state governments of different political hues towards co-operation. Last August Mr Gerhardt Schröder, SPD prime minister of Lower Saxony, organised a "summit" of top motor industry executives with himself, Mr Stoiber and Mr Erwin Teufel, the CDU prime minister of Baden Württemberg, with the aim of stabilising car industry employment in the three states to 2005.

Six weeks later Mr Stoiber was organising a "crisis summit" with Mr Teufel as well as the SPD leaders of Bremen, Hamburg, Lower Saxony and Rhineland Palatinate in a bid to save jobs at Dasa, the loss-making German aerospace group.

Against such a background, it is unlikely that state resistance in the solidarity surcharge dispute will crumble quickly. Negotiations seem sure to extend beyond state elections on March 24 in Baden Württemberg, Rhineland Palatinate and Schleswig Holstein.

But for once, delay in pushing through a government measure may prove advantageous to Germany as a whole. States and federal politicians have begun thinking of an inevitable compromise to resolve the dispute.

An eventual cut in the solidarity surcharge is likely to be packaged with other tax reforms, including the planned elimination of wealth tax and a restructuring of business taxes. There is even a chance that the government's bungled handling of the solidarity surcharge could yield a partial, but much needed, reform and simplification of Germany's excessively complicated tax system.



Tackle from behind: Bertelsmann and the Kirch group have taken Bundesliga TV rights away from public broadcasting for £270.2m

# BIG TWO WIN GERMAN FOOTBALL TV RIGHTS

By Judy Dempsey in Berlin

Germany's two most powerful media conglomerates have won the rights to broadcast the Bundesliga, the national football league, further undermining the role of public service broadcasting.

In a deal worth more than DM600m (£270.2m) forged between the Kirch group, Bertelsmann and the Bundesliga, the broadcasting of the country's national sport will shift from the public sector channels to private television networks.

The Bundesliga – which consists of two divisions, each consisting of 18 clubs – will be broadcast by Sat-1, the private commercial television network owned by the Axel Springer newspaper group and the Kirch group. Sat-1 paid more than DM450m for the rights which will start in the 1998 season and run until 2000.

Germany's only pay-TV channel Premiere, in which Bertelsmann has a large stake, has also paid the Bundesliga DM70m a season for the right to broadcast live two matches per week in 1997-98 and 1998-89. The agreement illustrates how difficult it is for public television channels – dependent on a licence fee for their financing and restricted in their right to advertise – to respond to the changing commercial requirements of sport.

The issue is also important in the UK, where on Tuesday the House of Lords voted to ensure that important sporting events should remain on terrestrial television. The German public service channels ARD and ZDF have already lost the rights to Formula One motor racing and boxing. They used to give limited coverage of the Bundesliga, but now will have to ask permission to do so.

> Football's costs have soared. For example, insurance premiums for player injuries are up 700 per cent this year

The agreement also confirms how television rights are increasingly being concentrated in the hands of the Kirch and Bertelsmann conglomerates, despite the new networks which have entered the German market since private independent commercial television was permitted in 1985.

However, Sat-1, a cable network available in most homes and which viewers do not have to pay extra for viewing will not be allowed to broadcast all matches live. "Sat-1 will be able to show the matches after the games have been played," said Mr Michael Novak, German Football Association spokesman. "However, each season it will be able to broadcast live five matches of its own choice."

In an attempt to prevent the Kirch group from gaining a monopoly over the TV rights and to secure more revenue, the Bundesliga struck up the deal with Premiere, which has 1m paid-up subscribers who pay DM44.50 a month.

Premiere, which was founded in 1991, is partly owned by Ufa, a subsidiary of Bertelsmann, which holds a 35.5 per cent stake. France's Canal Plus also holds 35.5 per cent. The remaining minority stake is held by the Kirch group. Mr Novak said the deal would help finance the soaring costs of insuring players against injury. These have risen 700 per cent this year and some small clubs are struggling.

# Brussels sides with workers in rights row

By Caroline Southey in Brussels and Robert Taylor in London

The European Commission decided yesterday to drop proposed changes to controversial legislation to protect workers rights when the ownership of a business changes.

The amendment was controversial because employers and the UK government argued that it removed an extension of the law to cover workers whose jobs were contracted out – the Commission had argued that the amendment would not have that effect.

The European Parliament and trade unions had argued that the amendment would weaken the protection of workers, particularly part-time workers.

Unions were delighted with yesterday's decision. Mr John Monks, the British TUC general-secretary, said it was a "major victory for the trade unions" and a "serious setback for the British government".

The decision comes after 18 months of wrangling over proposed changes to an amendment to the Transfer of Undertakings law passed in 1977. A further 24 amendments remain on the table, aimed at removing ambiguities in the law which have led to 21 judgments in the European Court of Justice.

The amendment dropped by the Commission sought to redefine what constituted a transfer of undertakings. Unice, the EU employers' federation, argued that a new definition was necessary to counter a European Court of Justice decision which had extended the scope of the law to cover contracting-out.

"This was not in the legislator's sights at the outset. As it stands the legislation is damaging to small and medium-sized enterprises in the services sector," Mr Nils Trampe, the Unice secretary for social affairs, said. He added that retaining the original definition of a transfer left a high degree of uncertainty about the scope of the law.

Mr Padraig Flynn, EU commissioner for social affairs, advised fellow commissioners to drop the clause to "avoid a constitutional clash" with the European Parliament.

The proposed revision had been suggested "not in any way to impose restrictions on the transfers now covered but simply to make it clear what a transfer is".

He said the parliament's view was that the proposed changes would "not improve legal certainty, while bringing in new factors of uncertainty which could prove prejudicial to both workers' rights and companies' interests".

Mr Flynn has left the door open for further negotiations on the issue.

He said the Commission would prepare a memorandum based on the European Court's case law on transfers of undertakings "where the concept of transfers would be reviewed in detail, spelt out and clarified".

> State aid worth I£30m (£30.99m) for Irish Steel was formally approved by the European Commission yesterday, write Emma Tucker in Brussels and Andrew Jack Paris.
>
> The assistance is linked to the sale of the company to Ispat International and has a number of conditions attached, including limits on the range of products and output. The Commission also authorised £111m of aid to the UK coal industry to cover compensation for industrial injury and health damages to former British Coal workers.
>
> Brussels also announced an investigation into a FFr24m (£3.14m) aid payment to Saab Scania in Angers, France. The Commission is worried it exceeds regional limits and is destined for production, which could harm competitors.

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# Italian guiding hand for EU

## Edward Mortimer talks to Silvio Fagiolo, the likely IGC chairman

Mr Silvio Fagiolo, an Italian career diplomat, faces the daunting task of organising the intergovernmental conference (IGC) charged with revising the Maastricht treaty. After the opening session at foreign minister level, to be held in Turin on March 28-29, Mr Fagiolo will chair the conference for its first three months.

At least he thinks he will, but he won't know for sure until there is a new Italian government, in which Mrs Susanna Agnelli may or may not still be foreign minister. If she is not, her successor might in theory want someone else in charge of the IGC.

The chances of finding someone better qualified would be slim. Having represented Italy in last year's pre-IGC "reflection group", chaired by Mr Carlos Westendorp of Spain, Mr Fagiolo has all the fiendishly complex issues of EU institutional reform at his finger tips. Meanwhile, he is doing something Italian civil servants are quite used to – getting on with the job without waiting for a minister to give him instructions.

He plans to get the conference off to a brisk start, with weekly meetings enabling it to touch on all the main issues so that he can present a comprehensive "interim report" when Italy hands over the EU presidency to Ireland at the end of June.

The Irish will then have to broker the first deals and trade-offs, leaving it to the Dutch to reach the final compromise in the first half of next year. By that time, there may be a new and more amenable government in London.

But Mr Fagiolo does not despair of reaching agreement even with the present one, knowing as he does that it strongly favours eastward enlargement of the EU, which in his view makes it essential to render the institutions more efficient. "What value would it have," he asks, "for the new countries to join a Union which is ineffective?"

Mr Westendorp's report, presented to the Madrid summit in December, was criticised for making no attempt to reconcile the divergent views of national governments. But that, Mr Fagiolo explained in an interview yesterday, was not its job. It had to "reflect" in two senses – to ponder the issues but also to reflect the actual state of opinion within the EU, which is "very fragmented".

It would be for the IGC itself to work out the necessary compromises.

Mr Fagiolo has no truck with current pessimism about the conference. He believes it will be a success "in the sense of finding solutions which respond to the main needs of the Union: a more visible profile in external affairs, and to have it felt by the citizens as much closer to them and their problems".

Conceding that the EU has lost legitimacy since Maastricht, Mr Fagiolo puts this down to two main causes: unemployment and the lack of an effective foreign policy, especially on former Yugoslavia.

Unemployment, he admits, is "essentially a matter for single countries and for the global economy".

But foreign policy is at the heart of the IGC's agenda. The discussion about institutions may seem abstract, Mr Fagiolo says, but "institutions are really the instruments to do things". It is when they do not work that the EU becomes "really irrelevant". Mr Fagiolo sees an emerging consensus in the Union on the need to make the institutions "more responsible, more visible and more personal".

For foreign policy, he adds, the Union "has to have a face or a voice" – perhaps a secretary-general on the Nato model, or an elected "foreign policy president" serving for three years.

One point on which everyone agrees, including the UK, is the need for "a coherent analysis and planning body for the whole foreign policy of the Union", able to co-ordinate the external economic and trade policies, which come within the competence of the Commission and the European Parliament, with the political and security issues which are dealt with by intergovernmental negotiation.

Thus the separate "pillars" of the Maastricht structure would be brought closer together, but Mr Fagiolo is convinced they will remain distinct.

"Justice, home affairs, foreign policy, security: these are things countries could not give up without becoming a federal state."

## EUROPEAN NEWS DIGEST

# Discrimination rules to change

The European Commission yesterday served notice it would press ahead with proposals for legislation to change the balance of the burden on proof in sex discrimination cases to ensure it is shared equally by the plaintiff and defendant. The Commission's last attempt to have legislation approved by the Council of Ministers in 1994 was vetoed by Britain. As a result Mr Padraig Flynn, the EU commissioner for social policy, set in train procedures under the Social Protocol of the Maastricht treaty, which excludes the UK.

A Commission official said a new law was necessary "because women who make allegations of sex discrimination have to bear the full burden of proving the case, even where certain facts are easier for her employer to establish".

The new rules mean the applicant must show a *prima facie* case, after which the burden shifts to the defendant. *Caroline Southey, Brussels*

## Hague wants Serb officers held

The Hague war crimes tribunal last night asked the Bosnian government to hold two Bosnian Serb army officers while it decides whether to charge them and request their extradition. The Bosnian Serb army commander General Ratko Mladic, who is himself facing war crime indictments, has threatened to break off relations with the Nato-led peace implementation force, Ifor, unless the men are released. The two, Gen Djordje Djukic and Col Aleksa Krsmanovic, were among eight Serbs arrested by Bosnian government police in Sarajevo. Neither are on existing lists of Hague suspects and the Bosnian Serbs say the Moslem-led government violated international law by arresting them.

Bosnian government officials said they would be handed to Ifor or their UN police for extradition if served with Hague indictments.

■ In Mostar, south-west Bosnia, hundreds of Bosnian Croats demonstrated against plans by the town's European Union administrator, Mr Hans Koschnick, to reorganise the new municipality, saying they favoured Moslems. An EU official described the crowd as a "lynch mob" and the German government protested to Croatian President Franjo Tudjman.

■ The German cabinet yesterday agreed that German Tornado aircraft supporting the multinational force in Bosnia should also be allowed to operate over East Slavonia. The measure seems sure of widespread support in the German parliament. *Paul Wood, Belgrade and Peter Norman, Bonn*

## France acts over tax evasion

The French government yesterday stepped up its effort to stop tax evasion by multinational companies by strengthening proposals for a new law on the reporting of company accounts.

The new bill, which was yesterday finalised by the French finance ministry, will be presented to parliament this spring. It aims to give the government more powers to collect information on the internal operations of multinational companies operating in France. The initiative comes amid growing suspicion that corporate tax evasion may have been one reason behind the lower than expected budget revenues last year.

In particular, there are concerns that multinational companies are using "transfer pricing" – the rate at which different subsidiaries charge for services and goods provided to each other – to move profits out of France. Mr Alain Lamassoure, the budget minister, yesterday said: "I fear that one of the problems [behind lower than expected tax revenues] is that some enterprises tend to centralise their profits in low tax zones."

The new law would allow the French authorities to demand more information about the transfer of goods and profits in multinational groups and give it powers to impose additional taxes using this information. The French employers group, the Patronat, has expressed concern that any excessively draconian regime could deter foreign investment.

However, the finance ministry yesterday insisted that it was primarily seeking a more "clarified" law. "Companies which are honest have nothing to fear – the others, though, might," an official said. *Gillian Tett, Paris*

## Paris seeks to privatise by decree

The French government is to ask its parliament for authority to privatise state companies with a turnover of less than FFr1bn ($200m) and fewer than 1,000 employees by decree, instead of going through the cumbersome legislative procedures now required for all sell-offs.

The simplified procedure will apply to about 10 of the 21 companies on the government's original privatisation list. Their sale, by private placement rather than stock market flotation, will no longer require a bill through parliament or valuation by the privatisation committee.

The government yesterday added the Société Francaise de Production, a TV sport film company, to the privatisation list. However, its 1,100 workforce will require it to be sold off in the regular way. *David Buchan, Paris*

## Basques protest against killing

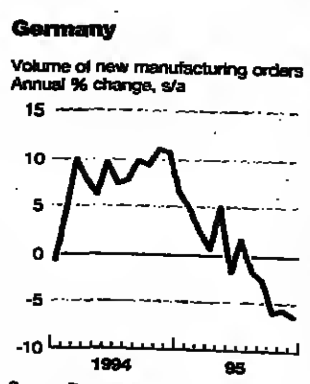
Electioneering came to a halt in the Spanish Basque country yesterday in a display of revulsion over Tuesday's assassination of Mr Fernando Múgica, a prominent Socialist figure and brother of one of the chief candidates for the general election on March 3. The main parties, locked in a tight battle for political dominance in the region, all suspended their campaign programmes and backed a demonstration in the streets of San Sebastian following the funeral yesterday evening. Political leaders congregated in the Basque city, including Mr Felipe González, the prime minister, and Mr José María Aznar, the opposition leader – himself the target of a terrorist attack last April.

Police were hunting a four-member squad of the Eta separatist organisation which escaped after the shooting. Mr Múgica, who was 62, is the 19th Basque politician to be killed since Spain introduced a democratic constitution in 1978.

His brother, Mr Enrique Múgica, the Socialist parliamentarian and former justice minister, said he would "not forget or forgive". *David White, Bilbao*

## ECONOMIC WATCH

# German orders fall in December




Germany's economic slowdown was underlined yesterday by seasonally adjusted figures for manufacturing orders showing a volume fall of 0.4 per cent in December against November and a 6.4 per cent drop against December 1994. The month-on-month decline reflected a 15 per cent fall in eastern Germany following an exceptional bunching in November. Orders for western German industry increased 0.8 per cent in December. Industry as a whole saw domestic orders fall by 2.4 per cent in the month, while those from abroad rose by 3.1 per cent. Mr Theo Waigel, finance minister, yesterday announced plans to cut 7,000 more federal civil service jobs over the next 5-10 years. *Peter Norman, Bonn*

■ French industrial production dropped 0.5 per cent between the second and third quarters of last year, according to official figures. Manufacturing fell 1 per cent.

■ Spain's trade deficit in December fell to Pta172.5bn (£908m) from Pta216.1bn in November and was 27.3 per cent down on the year.

NEWS: EUROPE

# Yeltsin tries Brezhnev era politics

By John Thornhill in Moscow

A definite runner in June's presidential election is ultra-nationalist leader Vladimir Zhirinovsky, pictured yesterday standing up to orchestrate his far-right faction in parliament Reuter

The Kremlin has, by all official accounts, been deluged with letters from around Russia in recent days imploring President Boris Yeltsin to run again in the presidential elections in June.

Published requests, from workers' groups, business leaders, and cultural figures, have at times seemed to echo the toadyism of the late Brezhnev era when Communist party members outdid each other in praising the great leader of the nation.

Russian television even broadcast a football match at the weekend in which the players urged Mr Yeltsin to stand again. Mr Yeltsin, 65, has said he will make up his mind by next Thursday. Despite widespread criticism of his conduct of the Chechen conflict and his own poor health, Mr Yeltsin appears to be steeling himself for the battle.

A drastic government reshuffle and several high-profile trips around Moscow, where he has been seen buying sweets and chatting with construction workers, hardly suggest the burly Siberian leader has retirement in mind.

In Rossiiskie Vesti, the government newspaper, the heads of several of Russia's biggest privatised oil companies this week backed Mr Yeltsin – no doubt mindful of Communist party threats to renationalise some strategic energy companies. The executives, including Mr Vagit Alekperov, president of the giant Lukoil company, said it was vital for Russia to have an experienced leader who could unite the nation's varied interests, preserve its integrity and press ahead with reforms. "The union of oil industry workers is certain that only you among Russian politicians can fully answer the demands of our time," they wrote.

Not to be outdone, several members of the presidential council yesterday wrote an open letter in Izvestia pledging support for Mr Yeltsin and criticised liberal politicians who resigned recently from the advisory body over Mr Yeltsin's policy towards Chechnya. "The president remains the main buttress of democracy in Russia and the guarantor of her Constitution," the letter stated.

The perfect opportunity for Mr Yeltsin to announce his candidacy may come next week when the president appears likely to visit Ekaterinburg, where he established his reputation as a radical Communist party boss.

The Interfax agency reported that Mr Yeltsin, who had been invited by a local group which supported his candidacy, would "address a rally attended by thousands".

The ever unpredictable Mr Yeltsin could yet decide to heed his wife's advice and retire gracefully. He would certainly appear to face an uphill battle against a revitalised and well-organised Communist party soon likely to endorse its leader, Mr Gennady Zyuganov, as its presidential candidate.

# Business outlook in Europe faces change

By Gillian Tett in Paris

Business confidence in Europe stopped falling for the first time in more than a year in January, a survey from the European Commission yesterday showed.

This boosted hopes that the mood in Europe may be set to change slightly in the coming months, after slower than expected growth triggered a dramatic loss of confidence in the past year.

However, the survey suggests that a gap is developing between the Franco-German core of countries and the rest of Europe. In France, Germany and Belgium confidence has continued to decline, but companies in some other countries, including Italy, Spain and the UK, have become more upbeat.

This range of sentiment may underscore the differing nature of Europe's present growth pattern, as large economies such as France and Germany struggle to introduce the fiscal measures needed to meet the Maastricht criteria.

According to the survey France has seen one of the most marked declines in confidence. However, Mr Alain Lamassoure, the country's budget minister, yesterday denied that the country was heading for recession. Speaking to the French newspaper Les Echos, he insisted that "this is not a recession, simply a pause – in the middle of this year economic growth will resume the rhythm it had back in 1994".

'Some countries are performing well. But in Germany and France it is different'

But French economists yesterday pointed out that the recent decline in business confidence had left sentiment back at levels last seen in 1993 – when France was in recession.

Although most French economists suspect that the pessimism expressed by French companies in the surveys may be exaggerated, few expect to see much growth in manufacturing this year. Mr Patrick Artus, chief economist at the French financial institution Caisse des Dépôts a European-wide crisis – some countries like Italy, Spain and Denmark are performing quite well. But in Germany and France now it is quite different, primarily because of differences in domestic demand and investment."

The Commission's survey, which covers some 25,000 companies in 12 European Union countries, found that business confidence fell further in France and Germany in January.

Falls also occurred in the Netherlands, Ireland and Denmark. This weaker sentiment was accompanied by declining employment expectations and a fall in the level of expected manufacturing orders.

Consumer confidence rose slightly in the UK and Italy and a number of other EU countries, including France. However, a rapid deterioration in sentiment in Germany meant the level of overall consumer confidence throughout Europe remained flat in January.

# Polish privatisation plan survives cabinet changes

By Christopher Bobinski in Warsaw

Poland's privatisation minister, Mr Wieslaw Kaczmarek, has survived a determined effort to oust him by the Polish Peasant party (PSL), the governing coalition's junior partner, after a week of talks on a new cabinet.

The government, which was sworn in yesterday, is led by Mr Wlodzimierz Cimoszewicz, a former communist party member and most recently the deputy speaker of the parliament. It succeeds one led by Mr Jozef Oleksy, who resigned after being accused of spying for Russia.

The PSL had wanted privatisation slowed down and Mr Kaczmarek's survival means that this year's $720m privatisation programme – which includes the sale of a minority stake in the country's Polska Miedz copper producer – remains on track. Among other planned disposals are the Ruch newspaper distribution network, the DT Centrum chain of city centre department stores, as well as breweries, chemical and white goods producers.

The other key economic posts in the cabinet, such as finance and industry, remain in the hands of Mr Grzegorz Kolodko, who is also a deputy prime minister, and Mr Klemens Scierski.

The Labour Ministry, which is crucial to the future of Poland's reform of its social security system, has been given to Mr Andrzej Baczkowski, an experienced ministerial official, while Mr Leszek Miller, the previous minister moves to head the cabinet office.

The new cabinet also sees the replacement of Mr Jerzy Jaskiernia, the justice minister who was accused by both the PSL and the Solidarity opposition of using his position to aid President Alexander Kwasniewski in his election campaign last November.

Mr Jerzy Konieczny, the interior minister brought in after Mr Oleksy was accused of spying, has been replaced by Mr Zbigniew Siemiatkowski, a close aide of President Kwasniewski.

## Measures fail to toughen stance against illegal entrants, says minister

# Italy's immigration law 'inadequate'

By Robert Graham in Rome

A government decree tightening Italy's immigration laws has been described as totally inadequate by a minister in the outgoing government, which introduced it on November 19.

The measures are turning out to be too complex for the bureaucracy to handle and are failing to address the most sensitive issue of being tougher in expelling illegal immigrants, according to Mr Giovanni Rinaldo Coronas, interior minister in the outgoing government of Mr Lamberto Dini.

The right-wing alliance, headed by former premier Silvio Berlusconi's Forza Italia, whose representatives proposed 38 amendments to the decree, yesterday endorsed Mr Coronas's views. The decree has yet to be voted into law: it is being enacted by cabinet decree, which will shortly have to be renewed.

Assessing the first months' operation of the decree before parliament on Tuesday, Mr Coronas said 1,973 expulsions had been decided under the new legislation but "probably none" had been carried out.

"The expulsion orders, even under the new regime, are not being effectively carried out," he declared, urging parliament to improve the expulsion system. The decree was designed to make it more difficult for those served with expulsion orders to remain in the country. But unless a person is accused of a serious crime (when he or she can be deported instantly), immigrants have a minimum of 10 days before expulsion orders are executed.

The interior minister said 1,973 expulsions had been decided under the new legislation but 'probably none' had been carried out

The orders are open to challenge in administrative courts and immigrants can use the 10 days to evade the loose control of the authorities. The cumbersome administrative procedures for repatriation plus the problems of obtaining funding also create many loopholes.

Last year, 56,015 expulsion orders were served but only 7,417 were carried out. This compared with 6,139 actual repatriations in 1994 out of 56,586 orders issued.

The new legislation had been intended to tackle the enormous gap between those persons the state had sought to expel and the number effectively repatriated. Italy has also been criticised in this respect by its EU partners.

But with over 500,000 people in the country illegally, most politicians, backed by a strong Catholic charity lobby, ruled out mass expulsions as impractical and politically unacceptable. The new decree encouraged illegal immigrants to register, regularising their situation via advance social security payments and presenting letters from employers.

Since November, only 74,359 people have applied to regularise their status, largely because the measures have been poorly publicised and people are waiting to see what changes parliament will make.

NEWS: THE AMERICAS

# Drop in US trade deficit lifts hopes for $

By Michael Prowse in Washington

The US trade deficit dropped to $7.1bn in November, signalling a sharp improvement in the US external position and raising hopes of a sustained strengthening of the dollar.

The commerce department said the shortfall was the smallest since March 1994. The decline marked the fifth consecutive monthly improvement in the deficit, which hit a peak of $11.4bn last June.

The figures compared favourably with Wall Street projections of a deficit of about $8bn, in line with the $8.2bn shortfall in October.

Mr Allen Sinai, chief economist at Lehman Brothers, the New York investment bank, said the data marked "a clear turn in trade and in the US current account deficit" and should reinforce expectations of dollar appreciation in coming months.

The improvement reflected a 1 per cent increase in exports to $67.4bn – impressive given sluggish demand in many of US export markets. Exports in November were running 9.2 per cent higher than in the equivalent period of 1994.

Imports fell 0.7 per cent to $74.4bn, reflecting slower growth of consumer and business demand in the US. Imports were up in the year to November, but by only 4.6 per cent – half the rate of growth of exports.

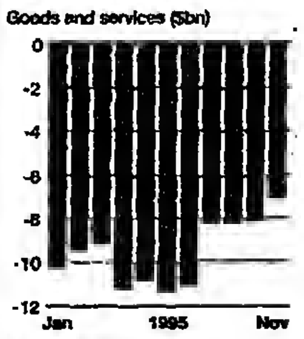
US bilateral deficits with most regions declined substantially. The deficits with Japan and China fell to $4.1bn and $2.8bn, against $4.8bn and $3.6bn respectively in October. The deficit with western Europe declined to $0.9bn, against $1.1bn in October.

But the US deficit with Mexico rose to $1.7bn from $1.4bn, reflecting continuing strains in Mexico after last year's financial crisis.

The weakness of the US trade account in 1994, and in the first half of last year, was widely regarded as a main factor depressing the dollar on foreign exchange markets. The sharp improvement now apparently under way should help boost confidence in the US currency, especially as the strength of US exports is widely seen as reflecting US industriel competitiveness rather than growth of overseas markets.

US trade balance

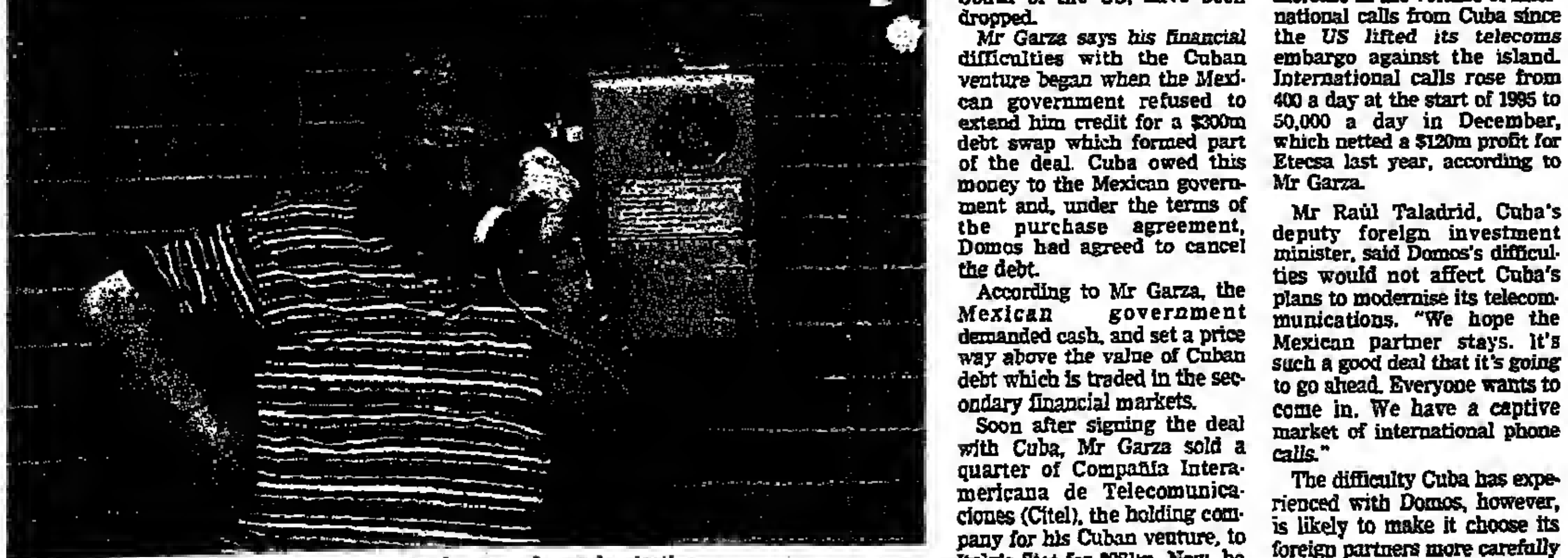
Goods and services ($bn)




Source: Datastream

# Trouble with the Cuban telephone bill

**Leslie Crawford** and **Pascal Fletcher** investigate the failure of Grupo Domos of Mexico to pay its final instalment and clinch a $1.5bn telecoms joint venture with Havana



Trying to get through in Cuba: the system needs money for modernisation Picture Fergus Wilson

Cuba's flagship foreign investment project – a $1.5bn telecommunications joint venture with Grupo Domos of Mexico – appears to have turned sour because of the failure by Domos to honour its part of the bargain.

Domos, a private Mexican group, has failed to pay a final $$[illegible]m instalment for its 49 per cent share in the Cuban telephone company Etecsa. The payment fell due last October, and Domos admits it is looking for a new foreign partner to provide the cash it does not have.

The group's financial difficulties are an embarrassment to the Cuban authorities, who announced the telecommunications project with much fanfare during a meeting in Cuba, in June 1994, of President Fidel Castro and Mr Carlos Salinas, then Mexico's president.

The joint venture is, on paper, to be the biggest foreign investment on the island, as well as Cuba's first big divestiture in a big public utility. Given its importance to the Cuban economy, many were surprised at Havana's choice of the company to spearhead the modernisation of its dilapidated telecommunications network.

Domos, a little-known company with limited experience in the sector, was selected in preference to European and Canadian competitors. It seems Cuba's close political ties with Mexico tilted the balance. Domos agreed to pay $706m for its stake in Etecsa, and pledged to invest $750m over the next seven years to expand services.

However, after a honeymoon period while legal details and organisation were being tackled, doubts began to surface about Domos's ability to deliver.

In Havana, Mr José Luis Rodriguez, Cuban vice-president and economy minister, said there were "steps to take" so as to resolve the issue, but insisted it was not affecting Etecsa's operations.

In Mexico, however, Mr Javier Garza Calderón, president of Grupo Domos, could not say precisely when he would be able to meet the $320m commitment. "We realise this is a very important issue for the Cuban government, as it is for us."

Mr Garza said in an interview at his office in the northern Mexican city of Monterrey. "We are looking for a partner who can bring value-added to the company, and who will be acceptable to the Cuban authorities."

Mr Garza belongs to one of the wealthiest industrial families in Mexico, but his net worth, and that of his private company Domos, is unknown. He and his father sold their stake in Grupo Visa, one of Mexico's largest conglomerates, for a reported $400m in 1993, having lost a takeover battle to their cousin, Mr Eugenio Garza Laguera.

Only 18 months ago Mr Javier Garza was boasting of plans to invest $10bn in the soon-to-be liberalised telecommunications sectors of Mexico and Cuba, and in environmental projects.

Today he strikes a more cautious note. The devaluation of the Mexican peso in December 1994 and the entry of telecoms heavyweights such as AT&T and MCI into the Mexican market seem to have dampened his enthusiasm for joining the big league. Plans to start his own long-distance telecoms company, in partnership with Bell South of the US, have been dropped.

Mr Garza says his financial difficulties with the Cuban venture began when the Mexican government refused to extend him credit for a $300m debt swap which formed part of the deal. Cuba owed this money to the Mexican government and, under the terms of the purchase agreement, Domos had agreed to cancel the debt.

According to Mr Garza, the Mexican government demanded cash, and set a price way above the value of Cuban debt which is traded in the secondary financial markets.

Soon after signing the deal with Cuba, Mr Garza sold a quarter of Compañía Interamericana de Telecomunicaciones (Citel), the holding company for his Cuban venture, to Italy's Stet for $281m. Now, he would like to sell another 24 per cent to a new partner for $500m-$600m.

Based on a new valuation by KPMG Peat Marwick, the UK accountants, Mr Garza says Etecsa, which was valued at $1.5bn in 1994, is worth about $5bn.

Potential investors are likely to balk at the price tag. Etecsa's theoretical valuation is roughly half the market capitalisation of Telmex, Mexico's privatised telecoms company and one of the largest corporations in Latin America.

Mr Garza argues the price is merited by the 12-year exclusive telecoms concession awarded by the Cuban government and by a dramatic increase in the volume of international calls from Cuba since the US lifted its telecoms embargo against the island. International calls rose from 400 a day at the start of 1995 to 50,000 a day in December, which netted a $120m profit for Etecsa last year, according to Mr Garza.

Mr Raúl Taladrid, Cuba's deputy foreign investment minister, said Domos's difficulties would not affect Cuba's plans to modernise its telecommunications. "We hope the Mexican partner stays. It's such a good deal that it's going to go ahead. Everyone wants to come in. We have a captive market of international phone calls."

The difficulty Cuba has experienced with Domos, however, is likely to make it choose its foreign partners more carefully in future.

The Cuban telephone venture is the second big Mexican investment to go awry in the wake of the country's financial crisis. In September 1994 Cuban and Mexican officials announced that a group of Mexican state and private investors, Mexpetrol, would modernise and operate an oil refinery built in Cuba by the Soviet Union.

A year later Cuban officials said the $200m refinery project, at the port of Cienfuegos, with the Mexican group had been "cancelled" and Cuba was again seeking foreign partners for the venture, so far apparently without success.

AMERICAN NEWS DIGEST

## Boeing crash 'due to storm'

Lightning may have caused the crash of a Boeing 757 aircraft off the Dominican Republic, in which all 176 passengers and 13 crew are believed to have died, the head of the main tour operator using the flight said yesterday.

Mr Vural Oeger, head of German-based Oeger Tours, said he had heard from Alas Nacionales, the Dominican airline which chartered the aircraft, that lightning appeared to have damaged both engines, causing the aircraft to plunge from an altitude of 10,000 feet on Tuesday night.

"We doubt there are any survivors," said General Juan Bantista Rojas Tabar of the Dominican Air Force. "It appears that the airplane sank immediately. We found some floating debris but no pieces of the plane."

In Germany, the transport ministry said the Boeing was not insured and did not have proper authorisation for its flight to Germany. London underwriters said the airliner had hull insurance worth $34m, partly underwritten in the UK capital, but it was not clear what passenger liability insurance was in place to cover death or injury costs. This was the second crash of a Boeing 757 in less than two months. On December 20 an American Airlines jet crashed into a mountain as it approached Cali in south-western Colombia, killing 164 people. *Ralph Atkins, London and Reuter, Puerto Plata*

## Challenge for cyberspace bill

A telecommunications bill which President Bill Clinton is due to sign today faces legal challenges over regulation of pornography in cyberspace and language that, critics say, could hamper women's ability to get abortion information on the Internet.

"The minute after he signs it, we're going to be in court seeking a restraining order," said Mr Philip Gutis of the American Civil Liberties Union.

He said that about 20 groups and individuals – including privacy rights activists, Planned Parenthood and others – have already joined the ACLU to become plaintiffs in such a case. They cite constitutional concerns over free speech and privacy.

Lawyers say the language under dispute would impose criminal penalties on people who make available "indecent" material to minors on the Internet or a computer on-line service. It also could make a crime out of the posting, on the Internet or a computer bulletin board, information that could be used to produce an abortion. *Reuter, Washington*

## Haitian president sworn in

Mr René Préval, an agronomist and a former prime minister of Haiti, was sworn in yesterday as the country's president, succeeding his ideological mentor, Mr Jean-Bertrand Aristide. The peaceful transfer of power was unusual in a country whose leaders since independence 192 years ago have come to office through coups d'état or elections of dubious integrity.

Mr Préval, who takes over a country ranked the poorest in the western hemisphere, had said this week that his priorities were improvement of the economy and ending outbreaks of violence and public disorder.

He plans meetings with friendly governments, aid agencies and financial institutions reluctant to release most of the $1.2bn promised to Haiti because Mr Aristide did not implement agreed economic reforms, including the unpopular privatisation of state-enterprises.

Officials said yesterday that Mr Préval will carry out the privatisation, but will seek changes to make the programme "more acceptable to Haitians." *Canute James, Kingston*

NEWS: INTERNATIONAL

# Israel rejects claim that kibbutz debt errors threaten banking system

By Julian Ozanne in Jerusalem

Israel's central bank yesterday denied that the country's big commercial banks might face collapse because they miscalculated debts owed by the kibbutzim, or collective farms.

It had been claimed the banks might be forced to pay back kibbutzim for years of overcharging and miscalculation of debt, interest and fees.

Kibbutzim, which played an important role in the creation of the Jewish state, began as agricultural collectives but have become more industrialised over the years.

They have been plagued by poor management and high expenses in providing consumer comforts – more luxurious housing and the latest electronic goods – to try to retain members.

The denial was aimed at calming the financial markets and reassuring investors participating in the privatisation of Bank Hapoalim, the country's largest.

The central bank statement came after the publication of a report by a legal expert examining the debt history and accounts of individual kibbutzim. The expert's report, commissioned by the kibbutz movement, detailed individual cases of banking miscalculations and claimed that the errors nationwide were so serious that they could threaten the banking system. Estimating current kibbutz debt at Shk15bn (£3.2bn), Mr Zeev Abeles, the central bank's supervisor of banks, said yesterday's reports "do not reflect reality in any way". He said the commercial banks had put aside enough in reserve to stay out of trouble. "These reserves represent a cushion for possible future losses and will also serve to weaken their possible impact on banks' profitability." He said government had responded adequately to the problem by making a first debt relief arrangement for the kibbutzim of Shk5.8bn.

However, it is unlikely the controversy will die down quickly. The kibbutzim have claimed that for years the commercial banks have incorrectly calculated accounts and accumulated millions of dollars, illegally compounding kibbutzim debt. Independent consumer banking groups have also charged that individual citizens have been victim to gross miscalculations on their personal accounts.

While the central bank and finance ministry sought to play down the allegations, Mr Yacov Tsur, agriculture minister, backed the report's findings. He said evidence of poor accounting required a formal inquiry and he accused the central bank and treasury of seeking to avoid an inquiry in order to maintain the credibility of the banks.

# Fitful Africa deepens donors' dilemma

**Michael Holman** says would-be friends will have found many elections but not much democracy

Once confidently hailed as Africa's decade of democracy, the 1990s are proving that the path to multi-party politics and market-driven economic policies is a bumpy one.

Recent coups in Niger and Sierra Leone, unrest in Equatorial Guinea, the deepening crisis in Nigeria and the failure to restore order in Zaire, Liberia, Sudan, Rwanda and other crippled sub-Saharan Africa states are the most obvious signs of stress.

But adding to the concerns of international donors, anxiously looking for evidence their policies are helping Africa recover from its disastrous post-independence record, has been the weak performance of government and opposition alike in many of the continent's new democracies.

"The wind blowing from Europe has begun to sweep Africa," enthused the late French President François Mitterrand in 1990, as the end of the cold war and the democratisation of communist regimes helped inspire African electorates frustrated by years of dictatorship. France, Britain, the US and other leading donors added to the pressure on authoritarian regimes by linking aid to what they called "good governance".

From Ethiopia to Zambia, military rulers succumbed to democracy, and one-party civilian regimes gave way to demands for multi-party elections.

In several, notably South Africa and Namibia, democracy has taken root, adding them to the ranks of Botswana and Mauritius. But in most the outcome has been flawed or fragile.

Is it because the democratisation of a continent burdened by arbitrary boundaries and the lop-sided economic legacy of the colonial era is bound to be "gradual, messy, fitful and slow, with many imperfections along the way", as Larry Diamond, an American political scientist, has suggested?

Or have the donors got their priorities wrong, forcing the continent to "follow mindlessly the present politically correct and stridently advocated view that democracy is the pre-condition for economic development", as Singapore's senior minister Lee Kuan Yew put it in a speech in 1993.

Taking multi-party elections as a yardstick of change, the continent has been transformed. Over the past few years parliamentary elections have been held in 35 of 48 sub-Saharan countries. But encouraging though this is, say African analysts, the transition to democracy is far from complete or secure.

In 17 countries "these elections did not bring about significant change in the direction of democracy", argues Dr Marina Ottaway, visiting professor of African Studies at Georgetown University, Washington.

> Elections have been held in 35 of 48 countries in sub-Saharan Africa

In seven countries (Burkina Faso, Cameroon, Ethiopia, Gabon, Guinea, Mauritania and Togo) elections were "seriously flawed", in another four (Angola, Gambia, Nigeria and Burundi) election results "were voided by subsequent non-democratic interventions"; and in six (Congo, Djibouti, Ghana, Ivory Coast, Kenya and Senegal) the elections "were at best marginally free and fair", writes Dr Ottaway in a paper published last year.

For aid donors this record poses awkward questions.

Although economic reforms – competitive exchange rates, trade liberalisation, privatisation – have gone hand in hand with political change, the link is not borne out by the Asian experience, as Mr Lee pointed out. Nor, be could add three years later, is it self-evident in Africa either.

It was Ghana which blazed the African economic reform trail in the early 1980s, making it the World Bank role model, a status enhanced when the military government of Jerry Rawlings held multi-party elections in 1992.

But in the run-up to the polls, the government relaxed monetary and fiscal discipline and eased back on reform measures, including privatisation. Although the ruling party won the election, it paid a high price: money supply rose, inflation climbed, and foreign investors held back.

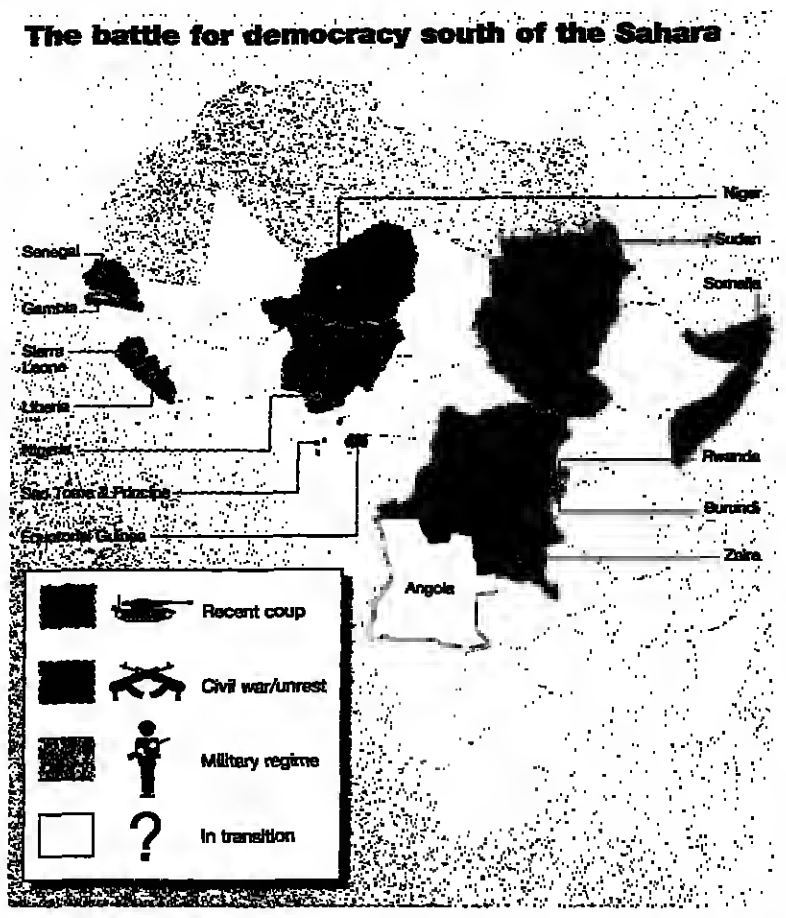
Now Uganda has taken over as the star performer, registering annual average economic growth of around 5-6 per cent over the last 10 years. President Yoweri Museveni, however, presides over a *de facto* one-party state, tolerant of opposition, but allowing no fundamental challenge to his administration.

Had the record of opposition parties in Africa's new democracies been more encouraging, donors would be on firmer ground.

As it is, the opposition performance has been weak, whether in Ivory Coast, Kenya, Zambia, Tanzania, Zimbabwe or elsewhere. Ethnic loyalties, not policy, have determined voter allegiance, while the institutions which should buttress democracy – the press, judiciary, civil service, trade unions – have yet to recover from the era of autocratic rule.

Meanwhile the donors' own shortcomings have become increasingly apparent. Trade or security concerns frequently take precedence over strict enforcement of the principles of "good governance", a fact many donors do their best to conceal by conducting discussions in secrecy.

**The battle for democracy south of the Sahara**




They are also divided within their own ranks, and often inconsistent in their approach, making multi-party politics a condition of aid to Kenya, but not Uganda, for example. Critics also point out that the same donors have not allowed human rights to stand in the way of increased trade with China.

For donors trying to steer a course between principle and pragmatism, rewarding reform as well as punishing transgression, the decisions are often difficult.

But as Dr Ottaway points out, there is always a danger that the aid community can be outwitted: "African leaders are learning that foreign donors can be appeased without a complete surrender to the voters' choice.

"They are becoming adept at holding elections that are just open enough not to incur sanctions by the international community while protecting themselves against excessive competition."

With the leaders of Ghana, Zimbabwe, Zambia and Kenya all facing elections in the coming months, no doubt both opposition parties and donors will be bearing this in mind.

INTERNATIONAL NEWS DIGEST

## Iraq restores power to Kurds

The Iraqi government, in a bid to mend fences with its Kurdish rebels, will resume the supply of electricity to its northern provinces, the government newspaper al-Jumhouriya reported yesterday.

The move was made as Iraq and UN officials met in New York to discuss an oil-for-food scheme in which Iraq would be allowed to sell limited amounts of oil in order to ease the suffering of its people.

UN Resolution 986, which Iraq rejected but is now willing to discuss, allocates $130m to $150m for the UN humanitarian programme for Kurds for each $1bn of oil sales.

The earmarking of money for the Kurdish north and how food will be distributed there are believed to be the most difficult hurdle at the New York talks. *Reuter, Baghdad*

### Sun City in political gamble

The government of North West province, formerly the South African "homeland" of Bophuthatswana, has joined forces with Sun International, owners of the Sun City resort and other casinos, to preserve its share of profits from gambling resorts licensed during the apartheid era.

Mr Martin Kuscus, North West finance minister, told the national parliament's committee on lotteries and gambling that earnings from the provincial government's R1.6bn stake in Sun International were vital to fund development and welfare projects.

The committee is examining proposals in the National Gambling Bill which would reduce the number of licences in North West from seven to five. The bill also includes anti-monopoly clauses which threaten the exclusive gaming rights secured from Mr Lucas Mangope, the deposed Bophuthatswana president, by Sun International, the leisure group founded by Mr Sol Kerzner. *Mark Ashurst, Johannesburg*

### Lebanon to curb broadcasters

The Lebanese government decided yesterday to close down dozens of private television and radio stations which have flourished since the 1975-90 civil war.

It will license only five private television stations and 10 private radio stations. At present there are 57 private television stations and more than 150 radio stations operate in Lebanon. Many were set up by civil war militias bot have been commercialised since the war ended.

Opponents of the proposal say it is an attempt to curb press freedoms and concentrate the media in the hands of political and sectarian chiefs. *Reuter, Beirut*

NEWS: WORLD TRADE

## Thais to begin talks on power supplies

By Ted Bardacke in Bangkok

Thailand's state-owned Electricity Generating Authority yesterday announced a further step towards privatisation, the largest of its kind in Asia, saying it would start talks with two international consortia to supply up to 1,400MW of power by the year 2000.

The consortia are Tri Energy, made up of Thailand's Banpu Coal and Texaco and Black & Veatch of US, and another including Thai Oil, Unocal and Westinghouse of the US. They were selected from 16 bidders who submitted documents last June. Back-up consortia, which will be called on if the two top-rated groups cannot reach an agreement, include Bangkok Energy System, a Thai-US joint venture, and Tuna Power, comprised of Loxley and Hemeraj of Thailand, Powerfin of Belgium and Bechtel of the US. Talks are expected to conclude in September.

Next month the authority will announce another shortlist, culled from 17 additional bidders, to supply 2,400MW of electricity in 2001 and 2002. Documents for another round of bidding, to supply 4,000MW between 2003 and 2006, will be issued later this year.

Both Tri Energy and Thai Oil, as well as the back-up consortia, propose building gas-fired plants, quashing speculation the authority would favour coal-fired plants because of concerns about the stability of natural gas supply. "It looks like we have more gas coming from our own production and from our neighbours," said Mr Preecha Chungwatana, the authority's governor.

The electricity authority has put a premium on diversifying fuel sources, and competition from coal in the next list is likely to be more acute, despite the higher costs.

Mr Preecha said the difficulty of evaluating 88 different options from 30 consortia, with numerous geographic locations, fuel sources and pricing structures, meant in the 2003-2006 round the authority would specify the fuel and general location.

# Rolls-Royce wins more Asian orders

By Michael Skapinker in Singapore

Rolls-Royce of the UK continued its run of Asian successes yesterday by announcing that Singapore Aircraft Leasing Enterprise (Sale) had chosen its Trent 800 engines to power six Boeing 777s.

Sir Ralph Robins, Rolls-Royce chairman, said at the Asian Aerospace show that the order was worth $150m. Although Rolls-Royce last year won the contract from Singapore Airlines to provide engines for 61 Boeing 777s, yesterday's Sale order was not a foregone conclusion.

Mr Cheong Choong Kong, managing director of Singapore Airlines, which has a 50 per cent stake in Sale, had said that the choice of engines for the leasing company's Boeing 777s would depend on the wishes of the airlines which planned to fly the aircraft. Sale has options on another 10 Boeing 777s but has made no decision on engines for these.

Last year's Singapore Airlines order was a breakthrough for Rolls-Royce as the carrier had traditionally bought its engines from Pratt & Whitney of the US. Rolls-Royce has also won contracts to supply engines for Boeing 777s operated by Malaysia Airlines, Cathay Pacific and Thai Airways International. The decision takes the Trent's market share on the Boeing 777 to 36 per cent.

● Rolls-Royce yesterday also announced an order for its industrial Trent aeroderivative gas turbine by Whitby Cogeneration Partnership of Canada, a venture between Canadian companies Westcoast Power and Atlantic Packaging, Reuter reports from Singapore.

The engine will be supplied as part of an electrical generating plant designed by Westinghouse Electric.

The cogeneration plant will supply power to Ontario Hydro, and provide process steam to an Atlantic Packaging paper mill.

# US lets shipping trade talks gently sink

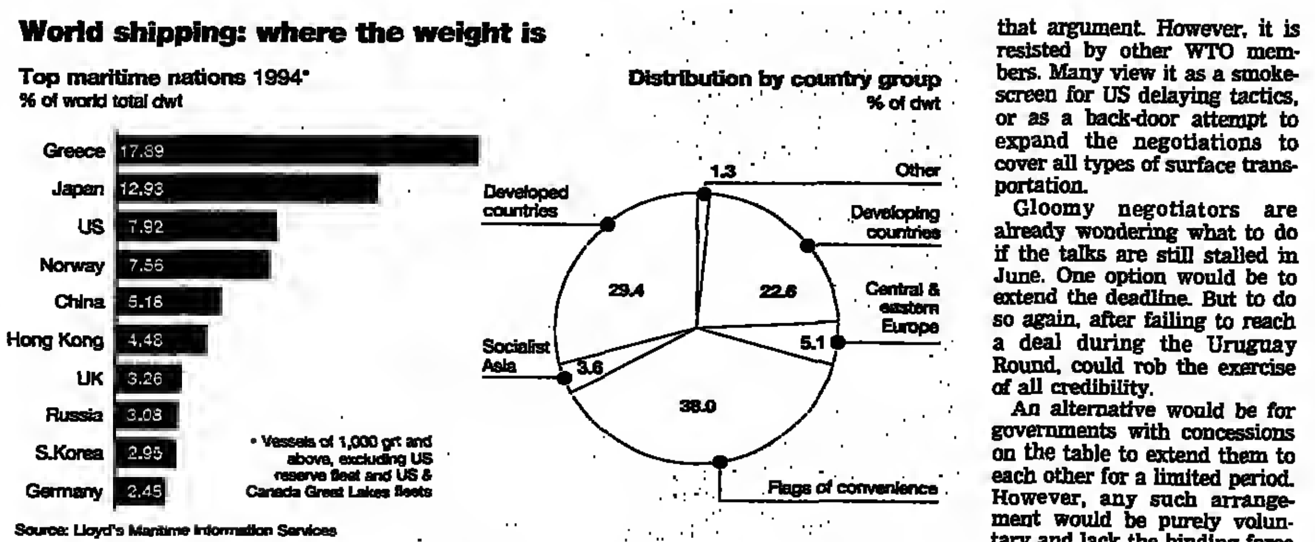
An election year is no time to make headway on liberalisation, writes **Guy de Jonquières**

Less than six months before they are due to be concluded, negotiations aimed at liberalising world merchant shipping are floundering in a sea of troubles. Not only have the talks made little headway: but some observers are questioning whether they are really worth the effort.

The talks, in the World Trade Organisation, are among the unfinished business of the Uruguay Round, which launched them as part of a landmark agreement to extend global trade rules to services.

Along with parallel initiatives in financial services and basic telecommunications, the search for a maritime agreement poses a test of the WTO's authority and its effectiveness as a negotiating forum.

**World shipping: where the weight is**




Source: Lloyd's Maritime Information Services

Negotiators in Geneva have already sat through eight sessions. A ninth is planned for next week. Yet many participants doubt a breakthrough can be made before the June deadline set for an accord.

The talks' main goal is to commit members to abolishing protectionist practices on international shipping routes, such as reserving a share of cargo for national lines. They also aim to open up port and auxiliary services, such as pilotage and cargo handling.

The most frequently cited stumbling block is the US, which has tabled no proposals to liberalise its market since it withdrew the modest offer it made in the Uruguay Round. The US insists it is up to other governments to make the running. Almost 30 other WTO members, including the European Union, Australia, Canada and some Asian countries, have kept offers on the table. However, negotiators say they have little incentive to improve them until Washington commits itself more actively to the talks.

Little suggests that will happen soon. US shipping operators, and the small but politically powerful US maritime unions, are unenthusiastic about a global accord. The Clinton administration appears split on the issue and averse to grasping it before the presidential election in November.

Indeed, Washington has been widely accused of caving in to its shipping lobby late last year, by enacting legislation which gives US shipping companies a monopoly over the transport of exports of crude oil from Alaska's North Slope fields.

Some shipping experts argue, however, that global competition in the industry is now growing so fast that the WTO negotiations are irrelevant. "These talks are trophy hunting, designed to keep trade policy groupies in business," says one European industry official.

In much of the developing world, governments have abandoned cargo reservation systems, as the state-owned lines which they were supposed to benefit have succumbed to financial difficulties and more efficient international operators.

The trend has been particularly striking in Latin America, where freer competition has cut container rates by 25 per cent in three years. It has also spread to Asia. Korea, for instance, plans to scrap its cargo preference rules by 1998. Such practices are now systematically applied only by a few African countries.

The EU, meanwhile, says its shipping market is already open, except for restrictions on a few African routes and services at a handful of European ports. The US retains some cargo preference laws, but they are estimated to affect less than 2 per cent of US ocean-borne foreign trade.

Even enthusiasts concede a WTO agreement would do little to open markets further. Its main benefit, they say, would be to cement in place liberalisation already achieved and curb US laws which provide for unilateral trade retaliation in shipping.

One area in which real protectionist barriers remain is in the transportation of goods to and from ports. The US has proposed that this issue be brought into the WTO negotiations, saying restrictions in many countries frustrate the trend towards integrated "multi-modal" cargo systems.

The EU broadly supports that argument. However, it is resisted by other WTO members. Many view it as a smoke-screen for US delaying tactics, or as a back-door attempt to expand the negotiations to cover all types of surface transportation.

Gloomy negotiators are already wondering what to do if the talks are still stalled in June. One option would be to extend the deadline. But to do so again, after failing to reach a deal during the Uruguay Round, could rob the exercise of all credibility.

An alternative would be for governments with concessions on the table to extend them to each other for a limited period. However, any such arrangement would be purely voluntary and lack the binding force of WTO rules.

Another possibility is that the EU might rescue the talks by persuading other governments to conclude an agreement which did not involve the US, as it did last summer when WTO negotiations on financial services faced the threat of collapse.

However, that trick could be much harder to pull off this time, because many developing countries are reluctant to make the sorts of concessions the EU wants unless they are matched by Washington. Denmark and Greece also see little point in a deal which involves no US concessions.

As trade diplomats ponder this unpromising outlook, some are seeking solace from the experience. Says one: "At least we have learned that we should never again set a deadline for difficult negotiations which falls in a US presidential election year."

WORLD TRADE NEWS DIGEST

## BHP shrugs off sanctions threat

Broken Hill Proprietary, the large Australian resources group, yesterday played down a threat of sanctions against it in the US because of its involvement in a possible A$1bn (US$740m) gas pipeline project between Iran and Pakistan.

Senator Alfonse D'Amato, chairman of the US Senate's banking committee, wrote to BHP this week, warning the company could face sanctions if it rushed through an agreement on the pipeline to beat congressional legislation allowing US sanctions on non-US companies that invest in Iranian oil and gas projects.

BHP acknowledged that it had been in discussions with the Iranian government, along with other western companies, but said it had made no commitments and signed no contracts. It said any reports of a feasibility study being undertaken were inaccurate, and that it would not be pre-empting US legislation. *Nikki Tait, Sydney*

### Beijing pressed on oil refinery

Mr Chey Jong-hyon, chairman of South Korea's Sunkyong business group, yesterday met Mr Li Peng, the Chinese premier, in Beijing to seek final approval for a $1.5bn oil refinery in Shenzhen. The refinery is the single largest South Korean investment in China since the two countries established diplomatic relations in 1992.

Beijing has withheld final approval as it wants the refinery located elsewhere to help provide balanced regional economic development. Sunkyong prefers Shenzhen since it has harbour facilities for oil tankers.

Sunkyong has indicated it will invest $10bn in establishing petrochemical facilities in China if the oil refinery project is approved. Sunkyong owns Yukong, South Korea's largest oil refiner. *John Burton, Seoul*

### Bulgaria to modernise reactors

Bulgaria will call for tenders for the modernisation of its newest and largest reactors to improve their reliability and efficiency. Mr Roumen Ovcharov, deputy chairman of the Bulgarian energy committee, said the US Export-Import Bank was backing a $250m programme by Westinghouse.

Russian experts, Germany's Siemens and France's Framatome are also expected to make offers for rebuilding the reactors. *Reuter, Sofia*

### Fibre optic link for Puerto Rico

AT&T, the US telecoms giant, has joined Tricom and Codetel, two telecommunications companies in the Dominican Republic, in the construction of a $30m fibre optic cable linking the country to neighbouring Puerto Rico. The Dominican companies will have a 50 per cent interest in the venture, with AT&T holding 13 per cent. Telefonica Larga Distancia of Puerto Rico has a 7 per cent stake, while several European companies share the rest. The Antillane cable will be commissioned within 12 months, and will initially handle 15,000 simultaneous calls.

The capacity will be expanded eventually to 300,000 calls, and will meet demand between the Dominican Republic and Puerto Rico for the next 20 years. *Canute James, Kingston*

■ Great China Airlines of Taiwan has ordered six 76-passenger Dash 8-400 turboprop aircraft from Bombardier, the Canadian aerospace group, for early 1999 delivery and has options on six more. Ryukyu Air, part of Japanese Airlines, plans to buy three 38-passenger Dash 8-100s with options for two more. *Robert Gibbens, Montreal*

# Japan may lift holding company ban

By Gerard Baker in Tokyo

Japan's ruling coalition yesterday began considering a proposed revision to the country's anti-monopoly legislation, intended to lift the 50-year ban on holding companies.

The Fair Trade Commission presented its recommendations for changes to the law to representatives of the three coalition parties in the form of a draft bill. But after initial discussions yesterday, the coalition parties were reported to be at odds over details of the proposals.

The largest member, the Liberal Democratic party, supports the main principle of the FTC's recommendation, that businesses should be allowed to form holding companies, provided they do not threaten to become anti-competitive concentrations of market power.

But the Social Democratic party, the second largest coalition member, was understood to have demanded much tougher safeguards against anti-competitive practices.

The law banning holding companies has its roots in legislation imposed by the US government of occupation after the second world war. The aim was to prevent formation of organisations similar to the pre-war *zaibatsu*, large cross-industrial groupings widely seen as key facilitators of Japan's military-industrial machine in the 1930s.

But last month the FTC presented the result of a long review of the law, suggesting it should be scrapped. The new legislation would continue the prohibition only when a company was thought to command excessive market concentration.

A holding company would be required to submit a full report to the FTC if its total assets exceeded Y500bn ($4.7bn).

The coalition must submit its final version of the bill to parliament by the end of this week if it is to be approved in the session ending next month.

In anticipation of the passage of the bill, the country's Big Four stockbrokers had begun to study ways of setting up holding companies, officials said yesterday. The four companies, Nomura, Nikko, Daiwa and Yamaichi, are considering divesting their operations into separate activities, under the overall supervision of a holding company.

The plan would be limited mainly to reorganisation of their business, and would not extend to possible alliances with other companies.

Last week several leading banks were reported to be considering a radical review of their relations with other companies as a prelude to establishing holding companies.

At present, banks hold vast numbers of shares in all sorts of companies and might sell some of them as part of a refocusing around alliances organised under financial holding companies.

# Current account surplus down by 14.5%

By William Dawkins in Tokyo

Japan's current account surplus, measuring trade in goods and services, fell 14.5 per cent to $110.44bn in 1995, the second consecutive year of decline.

The fall, in line with market expectations, supports the rise in the dollar's value against the yen, up sharply to nearly Y106 to the dollar in Tokyo yesterday. It came after a 15.5 per cent year-on-year decline in the December surplus to $10.7bn, the finance ministry announced yesterday.

Japan's politically sensitive trade surplus, the largest slice of the current account, fell 7.6 per cent to $134.8bn for the whole of 1995, the first fall in five years, after a 9.5 per cent fall in December.

Exports rose by 11.2 per cent last year, but this was easily outstripped by the 22.8 per cent growth in imports. This is testament to Japanese consumers' growing appetite for better-value foreign products. It also indicates the growing number of Japanese companies, mainly producers of cars and electronic goods, to have shifted domestic production to cheaper foreign countries, from where they sell goods back to Japan.

Japan's traditional deficit on services grew 61 per cent to $14.98bn. Most of that increase came from a rise in the number of Japanese taking holidays abroad, causing the deficit on tourism to rise 23 per cent to a record $33.51bn.

That was partially offset by an increase in foreign investment income. The balance on the investment return account rose nearly 10 per cent to $45.08bn, a consequence of the rise in interest payments on increased holdings of foreign bonds – higher yielding than Japanese ones. The deficit on the long-term capital account grew to $84.5bn from $82.04bn.

# China-Vietnam rail links past and future

## Two long-standing enemies are feeling their way towards a new relationship, writes Jeremy Grant

Next week, trains will rumble out of stations in Hanoi and Beijing, bound for the border between Vietnam and China for the first time since war severed rail links in 1979.

After centuries in which relations have ranged from mutual suspicion to outright hostility, the two sides are feeling their way towards a new relationship. But for the Chinese and Vietnamese, the rail link symbolises two very different things.

Beijing, keen to exploit Vietnam's market of 73m people, is understandably happy about the re-establishment of a link that offers its market-hungry exporters the prospect of increased access to a new market, diplomats say.

However Hanoi, aware of the threat to its manufacturing base from China's economic might, hopes that by engaging Beijing commercially, it may neutralise any strategic threat from China and inject stability into an often fragile relationship.

"Never before have you had such economic pressure coming from China, not in the last 2,000 years," said one European diplomat. "The reality is that they have to deal with China."

Relations with China are important to Hanoi, not least because of a shared culture. Chinese occupation of Vietnamese territory on and off until the 15th century left a heavy imprint on Vietnamese institutions and language. Place names, including the capital Hanoi, are rooted in their Chinese original and Vietnamese in its written form was in Chinese characters until the 17th century when a romanised form was introduced by a Jesuit priest.

Ideologically, too, the Vietnamese communist party feels it owes a debt to its Chinese counterpart for military and political help in Vietnam's struggle against France, the former colonial power, and against the US-backed South Vietnamese regime.

The Chinese harboured former Vietnamese president Ho Chi Minh before his return to Vietnam in the 1940s. The result has been an occasional tacit deference to Chinese might, where expedient.


In Vietnam, worries about China's economic muscle may not be expressed openly, but are real nevertheless. At Hanosimex, northern Vietnam's largest and most prestigious textile mill, officials show off garments made from locally spun yarn. But privately, they fear for their future. "You know," one factory manager confides, "a Chinese suit may not be as good as a Vietnamese one, but I can buy a Chinese one for half the price."

The most obvious threat to Vietnam's manufacturing base comes from southern China. Cheap consumer goods made there pour across the porous border every day, popping up in markets across northern Vietnam and to a lesser extent in Ho Chi Minh City. Vietnamese officials estimate that an estimated $1.4bn worth of goods were smuggled into Vietnam from China and Cambodia last year.

"It is a difficult test for the Vietnamese. But we believe that we can protect our production," said Mr Hoang Ngoc Cu, deputy general director of the trade ministry's foreign investment department.

Last year, a sharp rise in the price of rice in southern Chinese provinces sparked smuggling of Vietnamese rice across the border on a massive scale, highlighting the vulnerability of the Vietnamese economy. "If they want to teach Vietnam a lesson all they need to do is raise the price of rice in one Chinese province," said the European diplomat.

In Hanoi officials talk broadly of co-operation in fields of mutual interest but have ruled out joint-ventures in oil exploration in disputed areas of the South China Sea, a potential flashpoint for Chinese-Vietnamese tensions.

Little has been said publicly about what initiatives the Vietnamese have in mind, but work is under way to create a special economic zone in the north-east, next to the Chinese border. Vietnamese officials say two-way trade between China and Vietnam is expected to exceed $1bn this year, more than double that in 1995.

Exports to China are mainly rice, crude oil, coal, rubber and seafood. Hanoi buys cement, steel, chemicals and consumer goods, most of which form part of smuggled trade worth about $500m annually.

Evidence of Chinese activity is easier to find. One of China's largest vehicle manufacturers, Automobile Conglomerate No 1, opened an office in the Vietnamese capital in October last year. A World Bank-funded contract to rebuild a section of Vietnam's main road artery, Highway One, went last year to China National Overseas Engineering Corp (Covec), one of the country's largest construction companies.

Diplomats say the award of the contract to Covec met with some resistance from retired but influential figures in the Communist party, who questioned whether Vietnam should be giving China the job of rebuilding a symbolically important piece of national infrastructure.

China has replaced the former Soviet Union as the largest buyer of Vietnamese rubber, using traders in Ho Chi Minh City to negotiate prices favourable to the Chinese.

Economic rapprochement with China is thus bound to come at a price. The rail link, though it will involve goods being unloaded and reloaded on the other side of the border because different gauges do not allow through-trains, has been heralded by Vietnamese and Chinese officials as promising greater two-way trade. But diplomats say China will benefit more. "The Chinese have come to seek business opportunities. It's certainly more in China's interest," said the European diplomat. "The Chinese don't feel they owe the Vietnamese anything."

ASIA-PACIFIC NEWS DIGEST

## India takes new action on rupee

India's central bank yesterday announced a package of measures aimed at halting the recent slide in the rupee, including scrapping a dollar credit scheme for exporters and raising interest surcharges on loans to finance imports. Mr C Rangarajan, governor of the Reserve Bank of India, said the moves were designed to put a brake on imports while pressing exporters to remit foreign exchange earnings. He said they would be backed by closer RBI monitoring of forex trading.

Market uncertainty before the announcement helped keep the rupee steady at Rs37.20 to the dollar at yesterday's close, but dealers said the RBI package did not appear enough on its own to reverse the negative sentiment which has pushed the rupee down 8 per cent against the dollar in the past five weeks. "The moves don't affect the physical flows of currency," said the treasury manager of a Bombay-based foreign bank. "This is not going to change sentiment unless it is followed up by intervention." *Mark Nicholson, New Delhi*

## Indonesian inflation above 10%

Indonesia's year-on-year inflation rate for January broke the 10 per cent barrier for the first time in three years, figures showed yesterday, but the economy registered a trade surplus for the first 11 months of 1995. The January consumer price index rose to 10.98 per cent year-on-year and was up 2.16 per cent on a month earlier. The government attributed the rise to a 4.48 per cent month-on-month increase in food prices.

The November trade surplus was $633.8m against $509bn a month earlier. Total exports rose to $3.99bn in November from $3.90bn in October, while imports fell slightly to $3.35bn from $3.39bn. *Manuela Saragosa, Jakarta*

## Taiwan government majority cut

Taiwan's ruling Nationalist party (KMT) has had its majority in the legislature reduced to one, after expelling two KMT legislators for supporting the opposition parties' candidate for the influential post of speaker. The ruling party now holds 83 seats in the 164-seat chamber. The two errant lawmakers both belong to Taiwan's aborigine minority, which numbers some 300,000 of the island's 21m population. One, Mr Tsai Chung-han, ran unsuccessfully for the deputy speaker's post without the KMT's permission. *Laura Tyson, Taipei*

## Assault expected on Kabul

Mr Sardar Aseff Ahmed Ali, Pakistan's foreign minister, is due in Washington today for talks about Afghanistan, amid reports that Islamic militiamen plan an assault on Kabul this month. "The discussions may look at ways to prevent a bloodbath," one Pakistani official said. Concerns have grown over the security of Kabul after reports of rocket fire and air raids by an unmarked fighter, thought to be controlled by the *taliban* militia. Relief workers say almost a third of the capital's 1.2m people is either severely malnourished or starving, and the International Committee of the Red Cross has resumed a food airlift. *Farhan Bokhari, Islamabad*

■ South Korea expects a 1996 net foreign exchange inflow of $13bn-$15bn, against an estimated $13bn last year, the ministry of finance and economy said. *AFP, Seoul*

■ The China Securities Regulatory Commission has banned local securities firms from such activities as paying kickbacks, slandering competitors, illegally reducing or eliminating underwriting fees, or making use of officials to interfere with the market. *Reuter, Shanghai*


Grassroots support: A farmer near Melbourne puts his Angus-Hereford herd to work campaigning for Australia's main opposition party in the general election called for March 2 – and even the spelling is liberal. The opposition coalition, seeking to oust Mr Paul Keating's Labor party after 13 years in office, has traditionally gained a large slice of the rural vote, where many marginal seats lie this time. If the coalition wins at the polls it has pledged to call a "rural finance summit" to seek ways of aiding a farm sector severely hit by drought in recent years. But the National Farmers' Federation has backed a government environment package, unveiled last month, which lays emphasis on sustainable agriculture *Reuter*

# Manila reserves at record as inflation fears revive

By Edward Luce in Manila

Philippine foreign exchange reserves have surged to record levels as a month-long trend of strong capital inflows revived fears of growing inflation.

Mr Gabriel Singson, governor of the central bank, yesterday conceded the rise of inflation in January to 11.2 per cent meant the Philippines might have to revise its 1996 inflation target under a three-year International Monetary Fund programme.

Under the IMF "exit" programme, already relaxed on two occasions to accommodate breaches of agreed monetary growth ceilings, Philippine inflation is projected to average 6.5 per cent this year.

Last month's higher-than-expected rate, caused mainly by food shortages and a 10 per cent expanded value added tax, and the likelihood that the headline rate would continue to rise over the next two months owing to higher oil prices, meant the target might have to be pushed upwards.

But Mr Singson, who confirmed the central bank's dollar reserves had reached US$8.8bn – worth three months of imports – in heavy buying over the past week, said monetary growth was well within IMF-set targets.

The recent surge in inflation had not been caused by "loose monetary policy", he added.

An official of the IMF, which is to conduct its quarterly review of the Philippine economy at the end of this month, said the findings of the IMF mission could not be "prejudged".

The team, which will conduct intensive talks with Philippine officials on the country's performance targets, would look closely at recent inflation figures.

The central bank, criticised last April for allowing broad money growth (M3) to reach 45 per cent (well in excess of the IMF limit), yesterday stressed that its anti-inflation strategy was on course.

By issuing "repo" bills for dollars instead of pesos, the bank had sterilised the heavy purchase of foreign exchange in the past few days. Daily central bank purchases have averaged more than $100m since February 1 in reaction to an inward surge of stock market portfolio investments.

"The strength of capital inflows is a sign of long-term overseas confidence in the Philippine economy," Mr Dawi Guinigundo, central bank director, said.

"Foreign investors are looking beyond the high inflation rate towards the economy's medium-term prospects." A planned reduction in the bank's reserve requirement, now at 15 per cent, would be delayed until inflation fell back to single digits, officials added.

# HK exchange assails financial watchdog

By Louise Lucas in Hong Kong

The Hong Kong Stock Exchange yesterday criticised the Securities and Futures Commission (SFC), the colony's financial watchdog, accusing it of overstepping its role.

The row broke out over the SFC's wide-ranging corporate plan, launched on Monday. Dr Edgar Cheng, stock exchange chairman, said he had neither been consulted on the proposals, the bulk of which affect future development of the exchange, nor had any exchange officials given it their endorsement.

Relations between the stock exchange and the SFC, set up in May 1989, have often been tetchy. Even before the SFC was established, the exchange dug in its heels over financing and the scope of the new watchdog, which it said would duplicate its own developing role.

Recently, dissatisfaction against the SFC has been growing louder within the industry itself. Many believe the SFC is overfunded and can thus afford the luxury of investigating an ever broader area of issues.

Others worry that its powers, for example to study client documents, could trigger an exodus of private banks after June 1997, when China resumes sovereignty and wealthy individuals may prefer not to run the risk of their financial details being seen by Beijing.

Yesterday's comments by Dr Cheng are among the strongest yet from the exchange: "I am very surprised the SFC presents itself as the market development initiator, with the exchanges and market intermediaries as doers. Such centralised planning philosophy is discredited in most jurisdictions."

He reiterated concerns on the duplication of efforts, noting the significant increase in costs to be borne by all market participants, including listed companies and investors.

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FINANCIAL TIMES
# COMPANIES & MARKETS
Thursday February 8 1996





# Eurotunnel bankers split over refinancing

By Geoff Dyer and William Lewis in London

Bankers owed £8bn ($12bn) by Eurotunnel are split over whether to take a hard line in negotiations over the Channel tunnel operator's crucial refinancing.

The disagreement means Eurotunnel is likely to tell its shareholders soon that any resolution of its financial crisis is still a long way off.

Negotiators told the Financial Times that a hardline group of banks – the "hawks" – was insisting that it should eventually receive full repayment of principal and interest, together with penalties for late payment. A more moderate group of banks – the "doves" – had accepted the need to take some of the pain and was prepared to negotiate with the company about the level of debt or interest forgiveness.

Eurotunnel has been in talks with its 225 banks about a refinancing since it suspended interest payments on £8bn of debt in September.

The company had suggested schemes to its bankers which would reduce its debts to such a level that it could meet its interest payments on a daily basis in about 10 years' time, negotiators said. Interest on debts of £8bn, which the company is not currently paying, is accumulating at £1.8m each day.

The proposed solution, termed the "self-stabilising" programme, involves the company using its cash flow over the next 10 years to pay down the debt rather than the interest due on it.

The unpaid interest would be dealt with through a number of possible methods:

- Write-down by the banks of interest payments due to them.
- Conversion of interest payments into shares.
- The issue of equity-type instruments, including a possible share issue.

However, several hawks among the leading banks are said to be holding out against agreeing to such a plan. "The closer people are to the negotiations the more they want to push the company to the limit," said one participant in the negotiations.

One banker said: "The company's ideas about a restructuring are inappropriate to the situation."

Although the period of non-payment of interest lasts for 18 months, it can be abandoned after March 14, if 65 per cent of the banks vote to do so. However, negotiators say there is little prospect of the banks deciding to do so at this stage.

The bulk of the negotiations have been with the six banks in the so-called steering group – National Westminster, Midland, Crédit Lyonnais, Banque Nationale de Paris, the European Investment Bank and the European Coal and Steel Community. Below this level is a group of a further 19 banks – known as the instructing banks – which has been in regular contact with the company.

## IN BRIEF

### Ford falters

Page 17

### D-Mark strength cuts Schering

Schering, the German pharmaceuticals company, suffered a 13 per cent fall in preliminary net profits to DM249m ($169.2m) last year after being hit by currency fluctuations, particularly the strength of the D-Mark against the dollar, and growing competition in sectors it once dominated. Page 14

**Senior Morgan Stanley executive quits**

Mr Stephen Waters (left), a senior banker at Morgan Stanley, has resigned from the US investment bank only a month after returning to the US from a four-year posting to London. He had come back to a senior post in the mergers and acquisitions area, but was also due to maintain a number of client relationships in Europe. Morgan Stanley declined to comment, but an internal memo said he had resigned to pursue other interests. Page 17

**Europe's truckmakers see tougher 1996**

Europe's leading truckmakers are braced for tougher conditions over the next 12 months after recording one of their best years in 1995. The risk was highest in Germany, Europe's biggest truck market, said Mr Jean Pierre Lefebvre, head of European commercial operations at Iveco. Page 14

**San Miguel shows sluggish growth**

San Miguel, the Philippines' largest brewery and consumer food products group, blamed disappointing profit growth of 9 per cent in 1995 to 5.38bn pesos ($205m) on sharply higher raw material costs. Page 16

**Bidders line up for Clerical Medical**

Six financial services companies are thought to have made formal offers for Clerical Medical, the UK mutual life assurer, following its decision to invite bids from potential purchasers. Page 18

**UK pursues fight against 'illegal' beef ban**

Mr Douglas Hogg, agriculture minister, said that action by three German Länder to ban British beef imports was "illegal". He had taken up the issue with the German government and the European Commission and hoped the Commission would take action this week. Page 19

**Companies in this issue**



**Market Statistics**



**Chief price changes yesterday**

| | | | |
|---|---|---|---|
| **FRANKFURT (DM)** | | | |
| **Rises** | | | |
| Allianz | 948 | + | 46 |
| BASF | 380.8 | + | 9.4 |
| Hoechst | 454.75 | + | 11.05 |
| Lufthansa | 228 | + | 6 |
| SAP AG | 222.5 | + | 6 |
| **Falls** | | | |
| Karstadt | 551.5 | - | 11.5 |
| **NEW YORK ($)** | | | |
| **Rises** | | | |
| Manpower Inc | 29½ | + | ⅝ |
| Texas Pac | 30⅝ | + | 4½ |
| Three Five Sys | 19¼ | + | 1¼ |
| **Falls** | | | |
| AVX Corp | 24⅜ | - | 2⅛ |
| Ind Hlth Svc | 22⅜ | - | 2⅜ |
| Vishay Intl | 25⅞ | - | 4⅛ |
| **LONDON (Pence)** | | | |
| **Rises** | | | |
| Frost Group | 138 | + | 15 |
| Osprey Comms | 25 | + | 5 |
| United Drug | 310 | + | 20 |
| **Falls** | | | |
| Datrontech | 304 | - | 19 |
| Lawrence & Bur | 177 | - | 146 |
| Prowting | 102 | - | 11 |
| **TORONTO (C$)** | | | |
| **Rises** | | | |
| Fahnestock | 13⅞ | + | 1¼ |
| Sudbury Contac | 18⅝ | + | 1⅜ |
| Tarra Inds | 18¾ | + | 1¼ |
| Videotron | 12¼ | + | 1½ |
| **Falls** | | | |
| AIT Adv Info | 14⅛ | - | 1¼ |
| Mytec Tech | 7½ | - | 1½ |
| **PARIS (FFr)** | | | |
| **Rises** | | | |
| Accor | 693 | + | 24 |
| Lagardere | 123.7 | + | 5.7 |
| Salomon | 348.9 | + | 13.8 |
| **Falls** | | | |
| BNP | 198.7 | - | 7.3 |
| Canal Plus | 953 | - | 47 |
| Cred Lyon CI | 220.5 | - | 8.3 |
| **TOKYO (Yen)** | | | |
| **Rises** | | | |
| Niigata Eng | 398 | + | 23 |
| Nissei Sangyo | 1910 | + | 170 |
| Seibu Railway | 5190 | + | 300 |
| Showa Elec Wire | 589 | + | 40 |
| Tokyu Car | 730 | + | 65 |
| **Falls** | | | |
| M'bishi Plastics | 664 | - | 29 |
| **HONG KONG (HK$)** | | | |
| **Rises** | | | |
| Founder (HK) | 3.4 | + | 0.15 |
| Golden Harvest | 2.5 | + | 0.2 |
| Goodwill Inv | 2.875 | + | 0.2 |
| Seapower Intl | 3.75 | + | 0.5 |
| YGM Trading | 5.25 | + | 0.2 |
| **Falls** | | | |
| First Pac | 10.2 | - | 0.55 |
| **BANGKOK (Baht)** | | | |
| **Rises** | | | |
| Charoong Thai | 69.5 | + | 5.5 |
| Crown Seal | 64 | + | 5.5 |
| Hua Thai Mnf | 82 | + | 7 |
| Padaeng Ind | 25.25 | + | 2.25 |
| United Motor | 122 | + | 9 |
| **Falls** | | | |
| Thai-Asahi Glas | 52.5 | - | 5 |

New York and Toronto prices at 12:30.

# BT plans large German investment

By Judy Dempsey in Bonn and Paul Taylor in London

British Telecommunications and RWE and Viag, two of Germany's largest industrial groups, plan to spend DM3bn-DM4bn ($2bn-$2.7bn) building a German telephone network over the next four or five years, the three partners said yesterday.

The investment, which is expected to be mainly in infrastructure and will be divided broadly equally between the three groups, was disclosed yesterday as the companies confirmed plans to create a third consortium vying for position in the German telecoms market, Europe's biggest.

The three groups signed a letter of intent to work on the provision of the full range of telecoms services to corporate and residential clients.

The three believe the consortium can win 10-15 per cent of the German fixed telecoms market over the next 10 years, and will also apply for Germany's fourth cellular licence.

The detailed structure of the alliance will be worked out over the next few months. It signals a further consolidation of the market ahead of the introduction of full competition in January 1998.

The consortium will compete with Deutsche Telekom, the incumbent state-owned monopoly, and a second alliance of companies which includes Veba and Mannesmann of Germany, AT&T of the US and Cable and Wireless of the UK.

BT and Viag first formed a joint venture, called Viag InterKom, more than a year ago, and said then that they would be looking for other German partners.

Commenting on yesterday's agreement, Sir Peter Bonfield, BT's chief executive, said: "This builds on our partnership with Viag and our current operation, Viag InterKom, forming a key element of our international strategy to enable BT to bring its strength as a global operator to the whole German market."

It means France is the only big European market where BT does not have a joint venture partner. BT yesterday complained there was great uncertainty about French telecoms liberalisation. "The French authorities are not pursuing matters with the vigour adopted by the German authorities," BT said.

Under the agreement, RWE and Viag will merge their telecoms resources. Mr Dieter Kuhnt, chairman of RWE, the country's largest utility group, said RWE expected to be responsible for the residential customer unit and the infrastructure unit. Viag/BT would take responsibility for the business customer unit. The network operation and switching company would be managed by all three, with BT setting technical standards.

The German telecommunications market is worth about DM80bn and is expected to grow by 10 per cent a year to DM100bn-DM110bn by the end of the decade.

# SKF faces stall in demand after record year

By Christopher Brown-Humes in Stockholm

SKF of Sweden, the world's leading manufacturer of rolling bearings, said yesterday it was facing uncertainty in its main markets and customer segments in 1996, and demand was likely to stall at last year's levels.

The company – often seen as a gauge of the world economy because of its global reach and exposure to many different industrial sectors – made its comments as it reported an 83 per cent jump in profits from SKr1.82bn to SKr3.33bn ($480m) in 1995.

Mr Peter Augustsson, managing director, said the main uncertainties were the direction of the German economy and the outlook in the US. "Major uncertainty prevails among the world's automakers," he added.

The automotive industry is particularly important to SKF as its largest customer segment.

The company pointed to a clear downturn in the US truck market and said European car and truckmakers were hardly buoyant about their prospects.

However, it noted that even if demand weakened, it hoped to take market share which would lead to unchanged volumes overall. It also expected continued growth in the investment sector.

The company is more downbeat than it was a few months ago, partly because demand eased as 1995 progressed and the fourth quarter was worse than expected.

Instead of achieving 10 per cent volumes growth over the full year – as forecast in November – growth was 8 per cent because of lower demand in the final weeks of the year.

This meant full-year profits were about SKr200m less than analysts expected, pushing the group's B share price down SKr4 to SKr132. However, the 1995 figures were still a company record and came after a 10 per cent rise in turnover to SKr36.7bn.

Fourth-quarter profits were SKr748m, against SKr676m in 1994. The group attributed the unexpectedly weak figures on destocking which had bit demand in both its automotive and after-market segments.

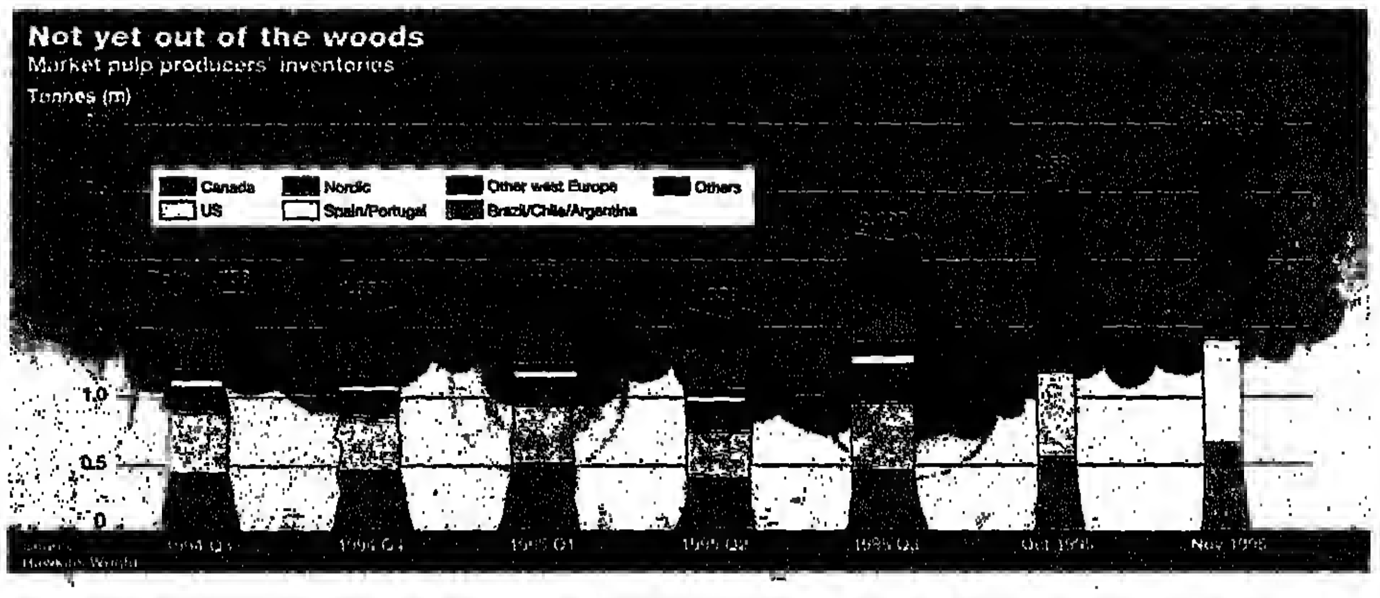
Analysts expect the group's 1996 figures to be similar to last year's, although they caution that the weakening European economy, where SKF has most of its sales, increases the risk of SKF falling short of the target.

Mr Staffan Ostlin, engineering and automotive analyst at Enskilda Securities in Stockholm, said SKF would be hit by the stronger krona, but the impact should be mitigated by higher prices, increased market share and productivity increases.

SKF plans to lift its dividend from SKr4.25 to SKr5.25.

## Mills are being forced to trim output after stocks ballooned and prices had to be cut

# Pressing down on the pulp matter




Mr Roger Wright, a UK paper industry consultant, has a vivid metaphor for the world's wood pulp producers: "They're too old for bungee jumping," he says, "so the pulp market is the nearest experience they can get."

No image better captures the recent performance of pulp, the main raw material in paper – except that, unlike bungee jumpers, pulp producers cannot rely on a rubber cord to save them as they plunge to earth.

The scramble to limit the damage was apparent this week as mills in Scandinavia, North America and Brazil slashed list prices by 15-20 per cent, bringing them close to the level at which business was being done in the spot market. Northern bleached softwood kraft (NBSK), the industry's benchmark product, now sells for about US$725 a tonne, or 27 per cent lower than the record price of $1,000 which producers tried unsuccessfully to impose on the market last October.

One mill after another plans to trim output over the next few months. According to Pulp and Paper Week, a publication, Canadian mills have announced temporary closures equal to 137,000 tonnes so far this year, or about 1.7 per cent of annual market pulp shipments. (Market pulp is the pulp not used by a mill's own paper machines.)

"In the next few months, we're going to see unprecedented cuts in production," says Mr Wright.

The shutdowns reinforce pulp's reputation as one of the most volatile commodities. At the end of 1993, NBSK prices were below $400 a tonne. No one predicted that they would more than double over the next 18 months.

The structure of the pulp market is a recipe for sharp price movements. It is a global business, with about four-fifths of all market pulp exported from the country where it is produced. No single producer has more than a 6 per cent market share.

Most mills' production costs are still well covered by these lower pulp prices. With the exception of Finnish producers, mills usually respond to sagging demand by fighting for market share rather than trimming capacity.

The latest meltdown stems from pulp producers' tardiness in responding to last summer's sudden reversal in paper markets. Demand for some grades of paper has softened, especially in Asia. Some producers blame a price war between Indonesian pulp mills and Georgia-Pacific, the big US forest products company, for triggering the precipitous drop in prices. Inventories ballooned: worldwide pulp stocks exploded by 50 per cent in the final three months of last year to 3.1m tonnes at the end of December.

Producers compounded their problems by bringing new capacity on stream. Supplies grew 4.8 per cent in the year to November, with much of the increase coming from new producers, especially in Indonesia.

Mr Wright, who believes that prices may be heading back towards $400 a tonne, says that "even if damand does bounce back, there's enough supply".

Others predict that the market is close to bottoming out. Their case rests on a combination of production cuts and an improvement in the paper market. One Vancouver-based trader expects that the recent hefty drop in paper prices will stimulate consumption. He adds that China has reportedly resumed large-scale paper imports.

UPM-Kymmene of Finland, Europe's largest pulp and paper group, is also upbeat. It expects production rates to be back to normal after March. The company, which only operated at 70 per cent of its fine paper capacity in the final months of last year, says paper merchants are working off their inventories.

Most analysts take a gloomier view, saying slower economic growth in Europe and uncertainty over the outlook for the US economy means destocking could continue into the second and third quarters. The expectation of even lower prices also means that buyers are reluctant to step forward.

For now the priority is damage control. Mr George Landegger, chairman of Parsons and Whittemore, a big North American producer, told the Canadian Pulp and Paper Association's annual meeting last week that pulp mills would have to cut production immediately to 78 per cent of capacity – equal to a three-week across-the-board shutdown – to achieve market equilibrium by March 31. To bring supply into line with demand by mid-year, the mills could ease to an 85 per cent operating rate.

Most Nordic producers and hardwood pulp mills in Spain and Portugal are now running at or below those rates. But mills in the US and Canada, which make up more than half of world output, are still operating in the upper 80s. Bungee-jumping may be their sport of choice.

**Bernard Simon and Christopher Brown-Humes**



# 'Softer' Sears bucks retail blues

By Richard Tomkins in New York

Sears Roebuck, the biggest US department store group, yesterday defied the gloom afflicting the US retailers by reporting a 27.6 per cent jump in underlying net profits to $455m in the fourth quarter to December.

Mr Arthur Martinez, chairman and chief executive since last August, said the performance was "outstanding, especially considering the tough retail climate during the holidays".

Most US retailers have just had one of their worst Christmas seasons in recent memory.

Sears, however, is reaping the benefits of a transformation engineered by Mr Martinez. He has remodelled the company's department stores and changed the emphasis from hardware to "soft lines" such as clothing, cosmetics and jewellery.

Mr Martinez has also been wooing customers with an advertising campaign that urges them to come and see "the softer side of Sears".

In the latest quarter, revenues from continuing operations – excluding the Allstate Insurance subsidiary, sold in June, and Homart Development, sold in December – rose 6.5 per cent to $10.85bn. Earnings per share rose from 90 cents to $1.13.

Mr Martinez said strong sales of soft line goods had helped lift revenues, but sales of "hard line" goods such as home electronics, appliances and exercise equipment were also "excellent".

One disappointment was the performance of operations in Canada and Mexico. Net losses of $7m for the quarter compared with $6m profits a year earlier.

However domestic net income jumped 29 per cent to $462m, driven by an increase of 5.8 per cent in revenues from stores that had been open a year or more.

For the full year, net income from continuing operations rose 19.6 per cent to $1.03bn, or $2.53 per share, on revenues up 5.8 per cent at $34.93bn.

## EUROPEAN NEWS DIGEST

## Financial operations help put BES ahead

A sharp increase in earnings from financial operations helped Banco Espirito Santo, Portugal's fourth largest financial group, lift net consolidated profit for 1995 by 12.7 per cent to Es19.5bn ($127.5m) from Es17.3bn in 1994. The bank said income from financial operations rose to Es7.3bn from Es2bn in 1994. Fee-based income, another area of strong growth for BES, rose 15.8 per cent. These two areas together accounted for 26.5 per cent of the group's total earnings, compared with 18.4 per cent in 1994.

Mr Ricardo Espirito Santo, BES president, said strength in these areas helped offset a fall in the bank's financial margin, the difference in the rates at which banks raise and lend funds, to 2.9 per cent from 3.7 per cent in 1994. Total assets grew 34.2 per cent to Es2,927bn; total lending rose 40.2 per cent to Es1,262bn.

These increases reflected the consolidation of Banco Internacional de Crédito into the group's accounts for the first time. Non-consolidated profit for BES, the group's principal bank, rose 5.1 per cent to Es18.5bn on lending growth of 14.6 per cent to Es853.8bn. Mortgage loans, which climbed 51 per cent, showed the strongest growth. BES, which has opted for organic growth rather than participation in the recent series of acquisitions which are reshaping Portuguese banking, opened 73 new bank branches in 1995. This lifted its network by 22 per cent to 406 outlets. *Peter Wise, Lisbon*

## One-off gains boost Trelleborg

Trelleborg, the Swedish mining and metals group, said higher metal prices and capital gains enabled it to achieve strong profits growth in 1995. It lifted its preliminary pre-tax result from SKr904m to SKr3.51bn ($444.2m). The result included SKr1.96bn of one-off gains. These reflected a SKr3bn capital gain from the sale of the group's 26 per cent stake in Canada's Falconbridge mining concern, partially offset by SKr1.1bn of one-off charges for redeemed property leases and a write-down of mining assets. Trelleborg said sales rose from SKr19.1bn to SKr21.3bn – up 15 per cent after allowing for disposals. It promised a more detailed overview of its performance on February 26. *Christopher Brown-Humes, Stockholm*

## Thomson-CSF in German buy

Thomson-CSF, the French specialist electronics company, has agreed to buy Software Union, a German-based software company, in a move aimed at sectoral and geographic diversification. Aachener und Münchener, the German insurer, sold Software Union to Syseca, a subsidiary of Thomson-CSF.

The deal will increase the French electronic group's civilian business east of the Rhine. Until now, Thomson's main ventures in Germany have been in the military field with Daimler-Benz Aerospace. But because of pressure on European defence budgets, the French company, which has already raised the civil share of its business from 20 per cent to 35 per cent over the past six years, is seeking diversification.

The acquisition of Software Union, with average turnover of FFr255m ($44.5m) a year, plugs a geographical hole in the activities of Syseca, which has annual sales of more than FFr2bn and subsidiaries throughout Europe, the US, Mexico and Singapore. *David Buchan, Paris*

## Luxottica lifts income

Luxottica, the Italian spectacles maker which last year acquired LensCrafters, the biggest US retailer in the sector, yesterday said net income rose 29.4 per cent in 1995 to L161.7bn ($103m). Net sales increased from L812.7bn to L1,849bn. Without the LensCrafters contribution, sales rose 22.4 per cent to L994.7bn. Luxottica, whose shares are listed on the New York Stock Exchange, acquired LensCrafters through the takeover of US Shoe and disposed of the footwear interests. In the second quarter, Luxottica also acquired Persol, the Piedmont sun glasses group. The group's operating income rose 29.4 per cent to L297bn, accounting for 16.1 per cent as a percentage of sales. *John Simkins, Milan*

## Czech oil stake sale finalised

The acquisition of a 49 per cent stake in Czech Refineries by three international oil groups has been completed, ending four years of negotiations and signalling the start of a restructuring of the Czech oil and petrochemical industry. Royal Dutch/Shell, Conoco of the US and Agip of Italy said they had each acquired a 16.33 per cent stake in Czech Refineries, paying "the agreed cash contribution". The consortium is to pay a total of $173m for the stake. Unipetrol, a new, state-controlled holding company, owns 51 per cent. Three representatives of the consortium were appointed to the board of Czech Refineries. *Vincent Boland, Prague*

■ Compagnie Luxembourgeoise de Télédiffusion, has signed an agreement in principle on a partnership with News Corp chairman Mr Rupert Murdoch, a source close to CLT said. "An agreement in principle on the marketing and distribution of digital channels with the Murdoch group has been achieved, but it was not finalised at the board meeting of CLT on Monday," the source said. *AFX News, Amsterdam*

# Schering results dragged down by strong D-Mark

By Judy Dempsey in Berlin

Schering, the German pharmaceuticals company, suffered a 13 per cent fall in preliminary net profits last year after being hit by currency fluctuations and growing competition in sectors once dominated by the group.

Net profits fell from DM285m in 1994 to DM249m ($169.2m) last year, while sales declined from DM4.69bn to DM4.64bn. Schering said sales volumes had risen 8 per cent, but exchange rate fluctuations – notably the strength of the D-Mark against the weak US dollar during the first half of 1995 – had dragged down overall sales calculated in the German currency.

"The outlook for 1996 is mixed," an analyst said. "It might have a 4 per cent growth in real earnings if currencies remain stable."

Exports, accounting for 85 per cent of total sales, fell 1 per cent from DM3.99bn to DM3.97bn, while domestic sales dropped from DM699m to DM677m. With the exception of therapeutics, sales volume declined across Schering's three other divisions, which include diagnostics, fertility control and hormone therapy, and dermatology.

Sales in therapeutics rose from DM1.10bn to DM1.18bn, largely due to the increase in sales of Betaferon, Schering's multiple sclerosis drug. The drug, which is available in the US where sales last year amounted to DM400m, will be distributed later this year in Europe.

Mr Guiseppe Vita, chairman, said recently that Betaferon sales could reach DM650m worldwide this year. However, this forecast was revised downwards yesterday. The company now expects sales of DM600m, although even this estimate has prompted considerable scepticism among analysts.

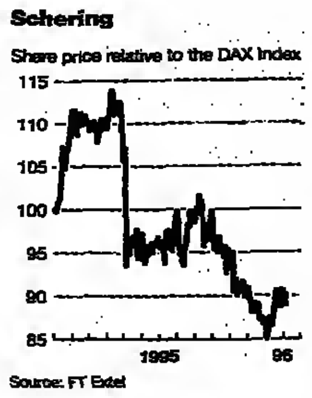
Ms Jo Walton, pharmaceuticals analyst at Lehman Brothers, said Schering would soon face competition from Biogen and Teva, the US and Israeli drug companies. Avonex, Biogen's multiple sclerosis drug, is expected to obtain approval from the US Federal Drugs Authority later this year, while Teva's Copaxone will be granted approval for distribution in Europe from the European Medical Agency.

"Schering had the lead in the US for multiple sclerosis treatment. But it might not hold it for much longer there, nor in Europe. It will have to do more marketing if it wants to capitalise on its six-month lead in Europe and convince neurologists to take the drug," said Ms Walton.

Other analysts said Schering would face difficulties in selling the drug because of the expense.

Schering is facing growing competition in the diagnostics division, where it once enjoyed a near-monopoly. Sales fell 5 per cent, from DM1.67bn to DM1.58bn. Some of the decline was blamed on the withdrawal from the market of Isovist 280, a contrast media drug used for X-rays, because of possible delayed reactions. But analysts believe the main reason is that Schering is facing increasing competition in a stagnant market.

Sales in the fertility control and hormone therapy division fell from DM1.44bn to DM1.41bn. This decline was mainly blamed on currency fluctuations and the controversy surrounding the alleged side-effects of third-generation oral contraceptives.




# Europe's truckmakers see tougher conditions

By Haig Simonian and Hugh Carnegy in Amsterdam

Europe's leading truckmakers are braced for tougher conditions over the next 12 months after recording one of their best years in 1995.

However, they have warned hauliers against excessive pessimism about political and economic developments in Europe, which could trigger a backlash of falling orders and lower production.

The risk was highest in Germany, Europe's biggest truck market, said Mr Jean Pierre Lefebvre, head of European commercial operations at Iveco, Europe's second biggest truckmaker.

Speaking at the Amsterdam truck show, he said: "The economic trends are not so bad, but the pessimism is incredible."

In spite of their caution about this year, most European truck makers should be reporting bumper earnings for 1995. RVI, the commercial vehicles arm of France's Renault group, said truck and bus sales soared by 19.5 per cent to almost 75,800 units last year. Sales jumped by 29 per cent to 45,700 units at the group's European-based operations, while Mack Trucks in the US raised its sales by 7.4 per cent to 30,070 units.

Mr Pierre Colmant, RVI commercial director, declined to give a profits forecast. However, analysts expect a strong performance by RVI to help the group report higher combined profits for 1995.

Volvo Trucks had its "most successful year ever" in 1995, according to Mr Tommy Rengman, executive vice-president. Sales rose by 12 per cent to 76,500 units, with European deliveries rising by 25 per cent to 35,200 units while North American sales increased by 2 per cent to 27,000 units.

Scania, the rival Swedish heavy truckmaker, also indicated it had enjoyed a buoyant 1995. Mr Leif Ostling, chief executive, said its market share had climbed by 1.5 percentage points to 14.3 per cent.

He declined to indicate the timing of Scania's widely-expected flotation, deflecting all questions to Investor, the parent company.

Renault warned that market conditions this year remained unclear. "The markets have been at a standstill since the beginning of the year, but should start growing again during the second half", said Mr Colmant.

Volvo expected 1996 to be "tougher than 1995". However, Mr Rengman said it expected to continue performing well because of innovations such as a lighter, 7.5-tonne truck range and a novel 6-litre engine.

All the main manufacturers have been trying to cushion themselves from the industry's notorious cycles by expanding internationally. Renault said it was in advanced talks to build trucks in Mexico, Brazil and India, and planned an engine-making joint venture in China. Mr Rengman said signals from Volvo's negotiations in China and India were "very positive".

Volvo Trucks expects to continue to do well through innovations

# Proposal to merge Ferfin and Gemina resurrected

By John Simkins in Milan

The so-called SuperGemina merger, which would have created Italy's largest private-sector group after Fiat had it not collapsed last autumn, may soon be back on the agenda.

The deal was intended to combine Ferruzzi Finanziaria (Ferfin), the holding group which owns 80 per cent of Montedison, and Gemina, an investment company controlled by Fiat, Mediobanca, the Milan merchant bank, and the rest of the Italian business establishment.

Tha plan was aborted amid heavy losses at RCS, Gemina's publishing and media subsidiary, and judicial investigations into allegations that Gemina and RCS accounts were falsified.

Speculation is growing in Italy, however, that the deal could soon return to the fore. In fact, it has never been scrapped and its promoters say the industrial logic behind it remains forceful.

SuperGemina would provide Ferfin and Montedison with a stable shareholder core, as well as cut debts at Ferfin, which totalled about L2,000bn ($1.3bn) last autumn but have since been reduced by the group's L953bn rights issue.

The merger would also allow Fiat to divest most of its chemical activities. Earlier this week shares in its chemicals arm, Snia Fibre, rose strongly. Yesterday they closed L9.1 down at L631.9.

Opponents of SuperGemina among Ferfin shareholders may also calculate that a marriage with Gemina might take place on more favourable terms than previously.

Late on Wednesday, preliminary figures were released for 1995 which showed that the improved performance of Ferfin and Montedison, which both returned to net profit in the first half, was continuing.

Gross operating profit at Ferfin was up 17.7 per cent last year, against 1994, at L3,623bn. This represented 13.8 per cent of turnover, compared with 12.8 per cent the previous year.

Gross operating profit at Montedison, which has chemicals, energy and agribusiness interests, rose 16.4 per cent to L3,440bn.

Although an evaluation of losses at the Gemina subsidiary is understood to be well under way, any revival of SuperGemina is not expected before March 14. This is the closing date of Mediobanca's obligatory offer for 158m Ferfin shares which will take its stake to about 15 per cent.

SuperGemina would ease the banks' departure from Ferfin's shareholder register, two years after they became reluctant investors as part of a debt restructuring plan.

# New money broadens Packard Bell horizons

## Investments from NEC and Bull will help growth and diversification

Packard Bell, the company that has taken the US home computer market by storm, aims to become a global personal computer supplier to all segments of the market, following yesterday's announcement of new investments by its existing stake holders, NEC of Japan and Groupe Bull of France.

The company's aggressive pricing, low-cost manufacturing and fast product development have propelled it to the number four position in the world personal computer market in terms of unit shipments, with an estimated 5.3 per cent market share behind Compaq Computer (10 per cent), IBM (8 per cent) and Apple Computer (7.8 per cent), according to Dataquest, the US market research group.

Like several other leading PC manufacturers, however, Packard Bell is believed to have been facing financial strains. Among the leading US PC manufacturers, IBM is only marginally profitable and Apple Computer recently reported a loss for the quarter ended in December.

As a privately-held company, Packard Bell does not reveal its financial results. However, Intel, the leading supplier of microprocessor chips to the PC industry and a large supplier of PC circuit boards, recently converted $470m in receivables from one of its biggest customers into a loan. Although Intel has not identified the customer, industry analysts say it is Packard Bell.

The new investments by NEC and Groupe Bull will "certainly improve Packard Bell's balance sheet", said Mr Beny Alagem, Packard Bell's president and chief executive. "In 1995 Packard Bell's US revenues grew 45 per cent. Sales outside the US grew by 60 per cent. On top of that we have built a very, very large manufacturing facility in Sacramento [California]," said Mr Alagem.

Under the terms of the agreement announced yesterday, NEC will invest an additional $283m in Packard Bell. Groupe Bull will transfer the assets of its Zenith Data Systems subsidiary to the US company. In return, NEC and Groupe Bull will receive redeemable non-voting preferred stock.

Neither NEC nor Groupe Bull is expected to seek a controlling interest in Packard Bell. They both hold a 19.9 per cent stake.

While the agreement with NEC will provide Packard Bell with a cash infusion, the acquisition of Zenith Data Systems provides the US personal computer maker with an entrée into a potentially lucrative segments of the PC market.

ZDS, best known for its portable "lap-top" PCs, also supplies desktop PCs and "servers", the computers used to power PC networks. Packard Bell will enter these segments and address the government, education and commercial market sectors in the US and Europe, Mr Alagem said.

The combined operations of ZDS and Packard Bell create a company with annual revenues, based on 1995 figures, of $5.5bn, making it one of the world's largest PC companies. Packard Bell claimed it would move into the top position in the US market, measured in unit sales, with a 13 per cent market share.

It will continue to use ADS's brand name and maintain its sales operations. The future of ZDS manufacturing operations is undecided. "We are still studying our options," said Mr Alagem.

Groupe Bull expressed relief at the sale of its ZDS. The business had lifted sales from $900m in 1994 to $1.2bn last year, but like a range of other PC manufacturers, including Italy's Olivetti, it was still in the red and not large enough to stand on its own. Fierce price competition, particularly in the consumer PC market, has forced many companies to cut prices and margins, while rapid technological advances mean manufacturers can easily end up holding obsolete stock.

Reinforcement of its US-Japanese alliance in personal computers now leaves Groupe Bull, which has confirmed that it made a net profit of around FFr300m ($59.3m) last year, free to step up its search for a European partner in its remaining computer business.

NEC, Motorola of the US and the state-owned France Télécom each have 17 per cent of Bull. However, Bull stressed yesterday it was still looking for another partner, preferably European, to take over a similar stake from the French state. Under the computer group's progressive privatisation programme, the French government is due to reduce its direct stake in Bull from 36 per cent to below 20 per cent by autumn 1997.

Bull said it was ready to entertain offers from computer groups like Siemens, software houses or even audiovisual companies in Europe.

Meanwhile in Tokyo, NEC said the additional investment in Packard Bell was aimed at strengthening its relationship with the US company. However, the move was also seen as a decision by NEC to provide financial assistance to the new company and, indirectly, to Bull.


Beny Alagem: investments 'improve balance sheet'

**David Buchan, Louise Kehoe, Michiyo Nakamoto and Paul Taylor**

# Trygg-Hansa surges back into black

By Christopher Brown-Humes in Stockholm

Trygg-Hansa, one of Sweden's leading insurers, capped a year of strong recovery by reporting 1995 operating profits of SKr2.75bn ($391m) yesterday.

The result was a SKr6.4bn swing from losses of SKr3.66bn a year earlier when the company's figures were ravaged by the impact of its disastrous investment in the US insurer, Home Holdings.

Home Holdings cost Trygg more than SKr3.5bn in losses and write-downs in 1994, but had no impact on the company's 1995 figures because the unit was sold to Zurich Insurance of Switzerland early last year.

Trygg's recovery also reflected improved underwriting figures and a better investment performance brought about by falling interest rates and higher share prices.

The performance encouraged the group to restore its dividend – which was suspended last year – with a proposed payout of SKr2 a share.

Trygg said it was satisfied with its underlying insurance performance, characterised by strong growth in its share of the life insurance market and a retained 20 per cent share of the non-life market in the face of stiff competition.

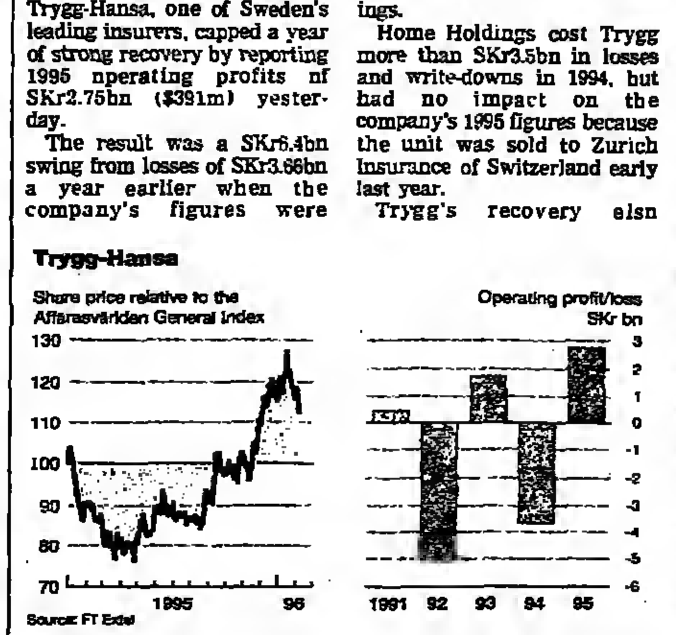
It noted that underwriting losses fell from SKr1.29bn to SKr550m, helped by a better experience in most lines of its business.

The improved investment outcome was reflected in a total investment return (including changes in surplus values) of SKr3.66bn, against SKr479m in 1994.

The latest figure includes SKr285m in capital gains from Swedish property sales.

The disappointment was a drop in premium income from SKr7.17bn to SKr6.6bn which it blamed on its decision to cease accepting reinsurance business and to strong pressures on rates in its commercial and personal lines divisions.

Mr Zaid Pedersen, Trygg senior vice-president, said: "Our aim in 1996 is to increase our volumes in both the life and non-life insurance market while holding costs still."












هكذا من الأصل

# Banks think of us as their idea bank.

THE SUNDAY TELEGRAPH OCTOBER 15, 1995

## THE GALLOPING BLACK HORSE

Hardly had it taken over Cheltenham & Gloucester than Lloyds Bank agreed a £148bn merger with TSB. Neil Bennett looks at the implications for the industry

If someone had been loitering near Blackfriars Bridge on September 7, they would have discovered that the banking deal of the decade was about to take place. Shortly after 7pm, a *black limousine pulled up* outside the former City of London Boys School, now the London offices of JP Morgan. Out stepped Peter Ellwood, TSB's chief executive, who hurried inside.

A few minutes later he was followed by Sir Brian Pitman, his opposite number at Lloyds and the banking industry's greatest deal maker. They were heading for a meeting that would lead to their two banks, with 16m customers, 90,000 staff and £148bn in assets, joining *forces*.

JP Morgan surrounded the meeting with the highest security. It made sure that the two bank chiefs would arrive 15 minutes apart so that no one would see them *together on the pavement*. It chose a night when there were no other functions ... the bank and the hospitali... rooms were deserted. Just ... make sure, it cleared a fl... or the dinner meeting. Pitman and Ellwoo... eft alone to eat in th...

...tary's Room, to allow them to discuss the *potential* merger. After a few awkward moments, they *hit it off famously*. They discovered they share many of the same ideas about banking. Both wanted to concentrate on their core retail businesses and sell more products to their existing customers, while *driving* down costs by investing in technology. By the time coffee arrived, the merger was well on the way to becoming a reality.

The...

...the numbers in a new way, prompted by Lloyds. By distributing the TSB's excess *capital to shareholders* in ... £1bn special dividen... deal suddenly ma... particular... bined ... a low... two...

...ing their back office systems and wholesale busine... *That alone will* boo... ings by 7p a year.

That is only ... are reluctan... job loss... but ... The... m...

Why do so many leading financial institutions and corporations turn to J.P. Morgan for help with mergers and acquisitions? Because they trust our objectivity, value our long-term perspective, and rely on our extensive knowledge of their industries. But even more important to our clients – and to us – is the fact that we take particularly good care of their ideas. We don't change their objectives to suit our purposes or get a deal done: we respect their strategies and use our talents to help them achieve their goals. The result: transactions that make sense for all parties, especially shareholders. The advisory work we've done in 1995 for our European banking clients helps to explain why we're a leader in our field, and they remain leaders in theirs.

**Selected publicly announced M&A assignments for European Banks in 1995**

| | |
|---|---|
| **TSB Group plc**<br>on its merger with Lloyds Bank Plc to form Lloyds TSB Group plc | **$15.3 billion**<br>(closed) |
| **Cheltenham & Gloucester Building Society**<br>on its sale to Lloyds Bank Plc | **$2.9 billion**<br>(closed) |
| **Credito Italiano S.p.A.**<br>on its public takeover bid of Gruppo Bancario Credito Romagnolo S.p.A. | **$2.3 billion**<br>(closed) |
| **S.G. Warburg Group plc**<br>on the sale of its investment banking business to Swiss Bank Corporation | **$1.4 billion**<br>(closed) |
| **Credit Lyonnais S.A.**<br>on the sale of Credit Lyonnais Bank Nederland to Generale de Banque | **$767 million**<br>(closed) |
| **Barclays PLC**<br>on its acquisition of Wells Fargo Nikko Investment Advisors | **$440 million**<br>(closed) |
| **Dresdner Bank AG**<br>on its acquisition of RCM Capital Management, a California Limited Partnership, from Travelers Group Inc. | **$300 million**<br>(pending) |



**JPMorgan**

## NEWS DIGEST

### Australian media merger hits snag

The Australian Competition and Consumer Commission, the country's competition watchdog, said yesterday it had ruled against the original merger plan between Australis Media, the satellite and pay-TV operator, and the Foxtel consortium, believing that this was likely to lead "to a substantial lessening of competition".

Foxtel is a joint venture between Mr Rupert Murdoch's News Corporation and Telstra, the large government-owned telecommunications group, and it is offering a rival cable-based pay-TV service. The ACCC said Australis and Foxtel had put forward one set of revised proposals but these "have practical difficulties and consequently the ACCC is not satisfied that they would overcome the ACCC's concerns". It said it expected Australis/Foxtel to submit a second revised scheme next week, which would then be evaluated.

Australis confirmed the two groups were still looking at ways to satisfy the ACCC, but added that it was "in discussions with major shareholders to develop a long-term funding package in the light of heavy demand for subscriptions". It said there were "currently in excess of 400,000 viewers of the Galaxy service, with a large backlog of orders awaiting installation".
*Nikki Tait, Sydney*

### Casino group issues warning

Casinos Austria International, the Australian-listed arm of the Austrian-based gaming group, said it had cut its profit forecast for 1996 to at least A$4.3m (US$3.2m) below the prediction made in its share prospectus when it launched on the Australian stock market. It is the latest of a series of profit warnings in the Australian gaming sector.

For the year to December, CAI had previously suggested a profit after tax of A$7.1m, on revenues of A$71.5m. It blamed the impact of the Sydney casino, which opened late last year, and intensified competition in the Australian gaming; the delayed sailing of a cruise ship, with casino facilities, in the US; and litigation associated with its Christmas Island operation. CAI takes in casinos in Canberra, Christmas Island, and the recently-opened Reef Casino in Cairns.
*Nikki Tait*

### Licence for DE Shaw Japan unit

DE Shaw Japan, the Japanese arm of the UK securities house DE Shaw Securities Group, received its licence to operate as a dealer and broker in Japan from the Japanese ministry of finance, effective this month.

The company will specialise in dealing in warrants and convertible bonds, and its launch comes as an increasing number of Japanese companies are restarting equity linked financing.

DE Shaw's debut in Japan may signal a halt in the departure of foreign financial institutions from the Tokyo market. Japan's role as a international financial centre has been questioned following a shift out of Tokyo by financial institutions' and companies due to excessive regulation and high costs.
*Emiko Terazono, Tokyo*

### Burmine lifts Gasgoyne stake

Burmine, the Australian mining group which plans to merge with Perth-based Sons of Gwalia and bid for Western Australia's Gasgoyne Gold Mines, said it had raised in stake in Gasgoyne to 18.29 per cent. The increased holding, which follows a series of stock market purchases places, increased pressure on the US's Couer d'Alene Mines, the rival suitor for Gasgoyne. Coeur d'Alene has an option over 19.9 per cent of Casgoyne's equity.
*Nikki Tait*

### Arab Banking Corp increases

Bahrain's Arab Banking Corp yesterday said it raised its net profits to $116m in 1995, up from $105m in the previous year. The bank, one of the Arab world's biggest, said operating profit before provisions, tax and minority interests increased 18 per cent from $225m to $266m. Pre-tax profit rose from $136 to $149m. Assets rose from $19.5bn to $21.3bn, and deposits, including certificates of deposit, increased from $16.4bn to $17.7bn.
*Reuter, Manama*

### Minorco sells Santa Fe interest

Minorco, the Luxembourg quoted offshore operating arm of the Anglo American Corporation of South Africa, is to sell its 9.6 per cent shareholding in Santa Fe Energy Resources, a US oil and gas company. At yesterday's price of about $9.50 a share, the stake is worth $82.8m. Santa Fe has called in three investment banks – Lazard Frères, Morgan Stanley and Salomon – to organise a secondary issue of the 8,712,327 shares.

Minorco previously owned more than 47 per cent of Adobe Resources, an oil and gas company that was merged into Santa Fe in December 1991. Minorco was obliged to retain its holding for a year. The company said yesterday the sale was another step in its strategy to focus on its core operations in gold, base metals, industrial minerals, paper and packaging and agribusiness. The cash raised would also help towards its heavy capital expenditure programme.
*Kenneth Gooding, London*

## Coca-Cola Amatil posts strong advance

By Nikki Tait in Sydney

Strong margin growth from its core Australian business, and a sharp profits rise in its Indonesia and New Zealand units, helped Coca-Cola Amatil, the Sydney-based soft drinks group, to a 25.1 per cent increase in after-tax earnings during the year to end-December. The figure of A$138.6m (US$104.6m) compared with A$110.8m a year earlier.

Overall, Coca-Cola Amatil's sales grew by 32.6 per cent, to A$2.97bn. Other revenue edged up from A$50m to A$70m, to take total operating revenues to A$3.04bn.

Interest expenses, however, were almost doubled at A$101.4m, compared with A$54.1m last time. Meanwhile, the A$671m rights issue, which took place in June, increased the number of shares in issue, with the result that earnings per share showed a more modest 9.6 per cent rise, to 31.3 cents.

CCA said that its core Australian business made a trading profit of A$176.8m on sales of A$1.26bn, up from A$146.1m and A$1.19bn respectively in 1994, remaining the company's most profitable business "by a significant margin".

The company acknowledged that it had benefited from the price war among Australia's sugar refiners, but said that the results also flowed from better control of costs generally.

In the Asia-Pacific region, Indonesia put in a particularly strong performance, with sales growing by over 30 per cent, and trading profit rising by 48 per cent.

CCA said it had restructured its investments, so it now holds a 90 per cent interest in Coca-Cola franchise operations which cover about 97 per cent of the country's predominantly Moslem population. A new A$100m bottling plant in Jakarta's Citibung district is due to come on stream later this year.

Profits were also 38 per cent higher in New Zealand, and rose 16 per cent in Papua New Guinea. Profitability in Fiji, however, was adversely affected by the cost increased marketing and a shift in product mix.

In Europe, sales almost doubled from A$595m to A$1.15bn, partly due to acquisitions, while trading profits rose from A$37m in 1994 to A$82.8m. The company said that it saw "excellent" results in Slovenia, while the newly-acquired Croatian operations made a "significant contribution". Trading profits from the Romanian unit, another recent purchase, were described as "very healthy" and in excess of forecasts.

However, the situation was less satisfactory in Hungary, where trading profits fell in the face of a weak economy and aggressive pricing.

Trading profits were also down in Austria, although this was because of a one-off provision.

## San Miguel growth held to 9%

By Edward Luce in Manila

San Miguel, the Philippines' largest brewery and consumer food products group, yesterday blamed anaemic profit growth in 1995 on the surge in raw material costs resulting from a series of natural disasters. At 5.38bn pesos ($205m) last year, San Miguel significantly underperformed average corporate results, posting net profit growth of only 9 per cent.

The company, which last year approved a 40bn peso capital increase to fund a five-year overseas expansion plan, said that higher commodity prices caused by reduced sugar, molasses, corn and copra production had sharply raised the cost of products for its beer and food outlets. Consolidated net sales, nevertheless, grew by 16 per cent to 79.2bn pesos in 1995. Sales volume grew by 7 per cent.

Beverage sales, which inclndes the gronp's rum brand, La Tondena, which was separately listed last year, and the group's beer brands, grew by only 5 per cent in 1995 as personal consumption spending fell in response to the doubling of rice prices.

Export earnings from its coconut oil and shrimp subsidiaries were also affected by higber costs and a weaker exchange rate to the dollar, tha company said. Efficiencies, however, led to a 19 per cent rise on its beverage margins.

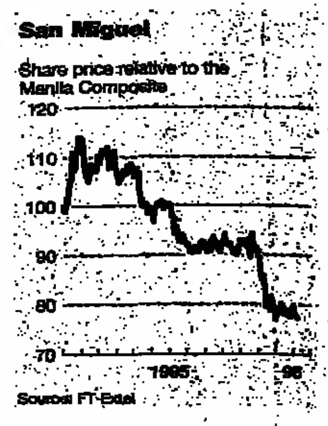
"San Miguel was struck by more than its fair share of bad luck last year," said Mr Noel Reyes, chief researcher at Dharmala Securities in Manila, yesterday. "Last year's depressed consumer spending and the unexpected leap in raw material costs was not foreseen by anyone, including the stock market."

Analysts, who aay the group's performance is expected to improve in 1996 with projections of about 15 per cent earnings growth, say San Miguel's B shares, which are available to foreign buyers, are already trading at a strong premium to the market. They closed at 99 pesos yesterday on a p/a ratio of about 36. The Philippine stock exchange is trading on a p/a of about 18.

San Miguel, which is lobbying tha government hard to change the 60 per cent ad valorem tax on beer which it says unfairly benefits its main competitor, Asia Brewerias, has gained strong shares in beer markets in much of east Asia in the past five years. The group, which contributes 6.8 per cent to the Philippine treasury's annual tax take, aims to increase its share of sales from abroad to around 20 per cent of total sales by 2000.

San Miguel

Share price relative to the Manila Composite




Source: FT-Extel

## Fokker could be saviour for Samsung Aerospace

### Dutch link-up would give Korean concern another option in civilian aircraft sector, says John Burton

While Samsung Aerospace is being mentioned as a possible saviour for Fokker, the troubled Dutch aircraft company may prove just as instrumental in rescuing South Korea's largest aerospace company.

"Samsung Aerospace doesn't have a future unless it enters the civilian aircraft market", said Mr Lee Keunmo, head of research at ING Barings Securities in Seoul. "It desperately needs a new product because it cannot rely only on military orders to survive."

Samsung, along with India's Hindustan Aerospace, yesterday confirmed that it was interested in acquiring Fokker.

Samsung's main aerospace business consists of the licensed assembly of Lockheed Martin F-16 fighters for the Korean air force. But it will need a new project after 2000 when production of the 120 F-16s on order is expected to be completed.

Moreover, Samsung's military business is not considered particularly profitable. Analysts believe that Samsung's estimated earnings of $9m in 1995 came mainly from its non-aerospace operations, including the production of cameras and semiconductor manufacturing equipment.

Samsung appeared to have secured its future in the civilian aircraft sector when it was selected by the Seoul government in September 1994 to head a Korean consortium that would develop a 100-seat regional jetliner in co-operation with China.

However, the state-sponsored Sino-Korean programme is under threat because of deep differences between the two partners. If the project collapses, "Fokker is an option for Samsung to remain in the civilian aircraft business", said Mr Lee.

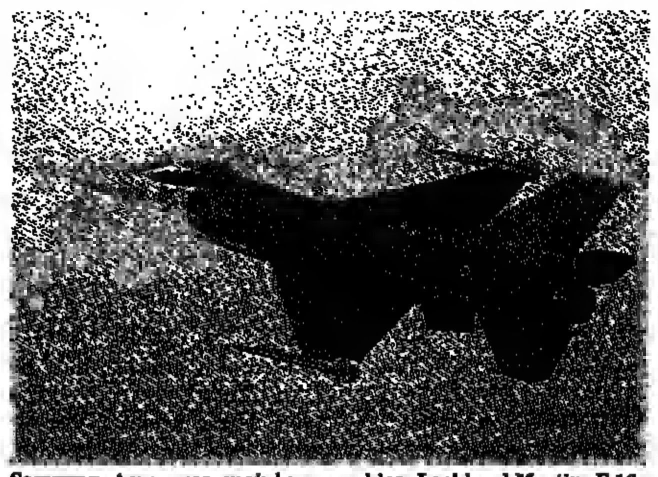
Korea and China have made little progress in resolving their disagreements during 18 months of negotiations on the $2bn jetliner programme, known as AirExpress. The main stumbling block is where to locate the final assembly plant.

China insists that the AirExpress plant should be located at Xian, the centre of its aerospace industry, since it already possesses aircraft technology and test flight capability and would provide the biggest market for the jetliner.

Other differences include the location of the aircraft design centre and the selection of a western technology partner, which is believed to have been narrowed down to either Boeing or an European consortium comprising British Aerospace, Aérospatiale and Alenia.

An added source of conflict is the choice of another Asian government as an investor, which would be offered a 10 per cent stake in the project in the hope that it would buy the aircraft. China prefers Singapore, while Korea favours India.

China and Korea each plan to hold a 35 per cent stake in AirExpress, while the western technology partner would have 20 per cent.



Samsung Aerospace mainly assembles Lockheed-Martin F-16s (above), although it also produces helicopters (below)

**Looking ...**

**'We will have to look into the case of Fokker and see why this company is in such difficulty'** – Mr Yu Moo-Sung, Samsung chief executive officer

**'We are studying Fokker carefully'** – Mr Ram Sharma, Hindustan Aeronautics chairman

The dispute has delayed the launch date of AirExpress project from the beginning of this year and any further postponement threatens the scheduled roll-out of the first jetliner in 1999.

Samsung's expressed interest in Fokker may only be a negotiating ploy to win concessions from China, such as agreeing to split production work.

News of Samsung's possible deal with Fokker came shortly after the latest meeting between Korean and Chinese government officials in Beijing in late January failed to reach a compromise on the AirExpress project.

But while Samsung is threatening to use Fokker as an alternative partner if China fails to make concessions, Beijing has indicated that it views Singapore as a possible substitute for AirExpress if Korea refuses to accept Chinese demands.

If the Sino-Korean project collapses, Samsung is believed then to be interested in acquiring part of Fokker to gain access to badly-needed aircraft technology and production equipment so it can carry on a civilian aircraft programme independently.

Samsung has the financial resources to buy some of Fokker's assets, since any deal is expected to be aided by Samsung Electronics, the group's cash cow with estimated net earnings of $3bn in 1995.

However, the Korean group will continue to face big obstacles to fulfilling its ambitions even if it gains part of Fokker. The world market for regional jetliners is crowded, which is the main reason for Fokker's current woes.

Samsung has a large guaranteed aerospace market in China by co-operating with Beijing, but it may have greater difficulty in finding customers by going alone since Korea is considered too small to support civilian aircraft production.

## Indosat ahead 59% as interest income reaches Rp101bn

By Manuela Saragosa in Jakarta

Indosat, the Indonesian satellite telecommunications company, saw its 1995 profits given a big lift by interest income resulting from its share listings in Jakarta and New York in October 1994.

At that time, Indosat placed a large slice of the funds raised in time deposits and as a result was able to bolster its income by Rp101.4bn ($44m).

Overall, Indosat reported full-year net profits of Rp459.4bn – a 59 per cent increase on the previous year – on revenues which grew 14.9 per cent to Rp1,044.9bn. The company said international telephone traffic, which grew by 15.3 per cent in 1995, was the most important factor driving earnings higher.

Analysts cantioned, however, that they expected earnings growth to slow significantly during the current year as Indosat has big spending plans in progress.

The company's capital spending plans for 1996 involve expenditures of about Rp560bn and cash for these projects is expected to be taken out of the time deposits. Singaporean brokerage firm GK Goh Ometraco, for example, has a "sell" recommendation on the stock. It expects net income in 1996 to total Rp505bn and says it may lower this forecast.

"It's a great company hut too expensive without any growth," one Jakarta-hased hroker said. No-one is qnestioning the viability of Indosat's many projects – such as Camintel which provides telecoms services in Cambodia – but analysts note the rewards on these projects are long-term.

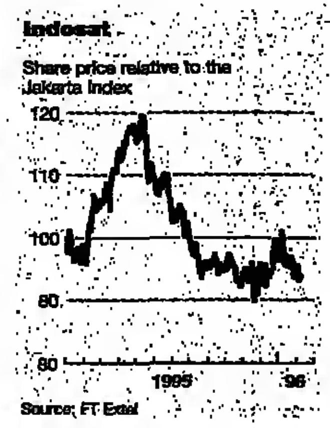
At the same time, Indosat is facing increased competition from Satelindo. This group, in which Indosat has a minority stake, provides a rival international direct dial service, and competition between the two is limited to marketing rather than pricing. Satelindo's market share for all outgoing calls is understood to have been 5.6 per cent in 1995.

Indosat increased its marketing expenditure by 126 per cent over 1994 to Rp16.5bn, a figure which is expected to continue rising "as competition becomes more intense," Indosat said.

Overall growth in the Indonesian telecoms industry was also below expectations last year. Indosat had predicted that growth would amount to between 20 and 21 per cent in 1995, hnt noted that industry growth totalled only 19 per cent compared with 21 per cent a year earlier.

Indosat

Share price relative to the Jakarta Index




Source: FT Extel

## Strong export prices lift Posco net 119%

By John Burton in Seoul

Strong export prices, particularly in Japan, helped to power Pohang Iron and Steel (Posco), the world's second-largest steelmaker, to a 119 per cent increase in provisional net earnings last year.

The South Korean company said another factor in the big rise in net profits, to Won839.7bn ($1.07bn) for calendar 1995, was reduced production costs resulting from increased productivity at its highly-automated steel mills. Turnover increased by 12.4 per cent from Won7,310bn to Won8,220bn.

Exports account for a quarter of Posco's total sales, which increased by 12.4 per cent to Won8,220bn last year.

The company gained business from leading Japanese carmakers last year, since it was able to offer lower steel prices than its Japanese competitors.

However, the jump in profit growth has prompted demands from Posco's main domestic consumers, including the car and shipbuilding industries, for it to reduce its steel prices this year.

Domestic steel prices are under government control and are already 15 to 25 per cent lower than those elsewhere in the region.

Posco, which is state-controlled, has resisted any price cuts by arguing that net profits will fall to Won694bn in 1996 on stagnant sales due to a global reduction in steel demand and a resulting cut in export prices.

In addition, it is undertaking a Won5,900bn expansion project to lift crude steel production to around 30m tonnes by 1998, against its output of 23.6m tonnes in 1995.

Posco said it planned to pay a dividend of Won950 a share for 1995, against Won675 a year earlier.

INTERNATIONAL COMPANIES AND FINANCE

# Telmex slips despite curb on costs

By Daniel Dombey in Mexico City

Depreciation and foreign exchange losses cut net income for the full year to end-December by 22 per cent at Teléfonos de México (Telmex), the country's long-distance telecommunications monopoly.

Net income for the year was 9.3bn pesos ($1.2bn), on revenues down 6 per cent at 41.8bn pesos. Operating profit was 15bn pesos, 20 per cent down.

The company, which faces increased competition later this year, concentrated efforts on controlling costs.

"The company can't do too much in terms of revenues, which are largely determined by economic conditions and tariffs agreed with the government, but they can control their expenditure," said Mr Rizwan Ali, a telecommunications analyst at Morgan Stanley in New York.

For the fourth quarter, operating profit fell 31 per cent to 3.2bn pesos. Net income was up 11 per cent at 969m pesos, on sales down 13 per cent at 9.8bn pesos.

A recession that shrunk the national economy 7 per cent and tariff increases that lagged inflation contributed to the decline in sales. However, the increase in Telmex's operating costs was kept to 5 per cent, to 26.7bn pesos.

Depreciation costs of equipment, which is mainly valued in dollars, increased 35 per cent to 7.1bn pesos.

The company's policy of keeping wage rises below inflation helped control costs. Telmex has also indicated that it may reduce its workforce after competition is authorised in August.

"Telmex is taking the right steps," said Mr Ricardo Peón, head of research at ING Barings in Mexico City. "But whether they are quick enough is still unclear."

Line growth was 3.6 per cent, bringing the total number of lines to 8.8m, but contrasted with previous years' figures of 12 per cent or more. Mr Adolfo Cerezo, chief financial officer, said he expected line growth this year to be broadly similar to 1995.

Income from international long-distance calls increased 24 per cent – it now accounts for 27 per cent of total sales – reflecting increased commercial activity with the US and cheaper calls in dollar terms.

Income from national long-distance calls, which also represents 27 per cent of total sales, fell 16 per cent to 11.5bn pesos, although traffic increased by 8 per cent.

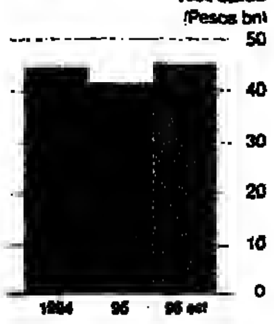
Long-distance calls have traditionally been among Telmex's most profitable activities, subsidising local telephony, although the company is in the process of rebalancing tariffs to prepare for competition. It has also announced plans to decentralise operations.

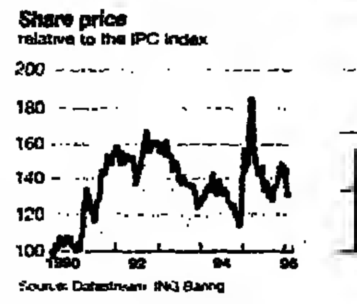
In 1995 Telmex cut the number of shares in circulation by some 8 per cent through a buy-back programme.

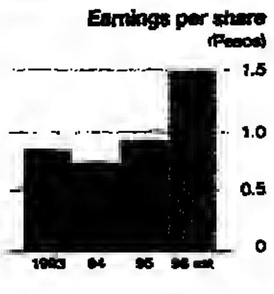
However, the most important development in store for the telecommunications sector will be the result of talks on interconnection fees. Telmex will be obliged to provide competitors with interconnection to its network from January 1997.

COMPANY PROFILE: Telmex

| | |
|---|---|
| Market capitalisation | $15.9bn |
| Main listing | Mexico City |
| Historic P/E | 13.2 |
| Gross yield | 2.9% |
| Earnings per share | 1995: 0.93 |
| Current share price | Pesos 12.18 |




Source: Datastream; ING Barings

# Argentina builds market for secondary mortgages

For the past two decades, buying a home in Argentina usually meant saving for years and then paying in cash. In 1991 that began to change after the government stabilised the economy, helping the mortgage market – dormant for years because of hyperinflation – spring back to life.

Now two multinational banks – CS First Boston and Deutsche Morgan Grenfell – hope to spur the process by offering securities backed by Argentine mortgages, the first such international issues in emerging markets.

Such deals are aimed at creating a liquid secondary market for mortgages that could shave several interest percentage points off the cost of borrowing to finance a home in Argentina. Ultimately, such programmes may mark a first step in the development of new international markets for housing securities, which would allow people in less developed nations access to cheaper sources of housing finance.

"There is an entire generation that doesn't even know what a mortgage is," says Mr Pedro Lacoste, an economist with Alpha, an Argentine think-tank. Like much of Latin America, Argentina is in desperate need of housing. The government estimates 400,000 units will have to be built or repaired annually over the next 10 years at a cost of about $5bn a year, while in Mexico it is thought to be about 670,000 units a year for $10bn.

That is partly why Argentina and Mexico want to develop internationally marketable mortgage-backed securities that will bring capital into the housing sectors.

Such programmes are part of a trend toward structured finance that was hastened last year when the Mexican peso devaluation made it almost impossible for companies to tap international capital markets directly. Mr Nasser Malik, vice-president of the cross-border finance group at Citicorp, estimates the volume of securitised transactions in Latin America jumped to about $3.1bn last year from $625m in 1994.

Deals such as the $400m issue last June from YPF, the Argentine oil company, backed by payments due from Chile's state-owned oil company, are different from mortgage-backed issues, but require many similar mechanisms.

Mexico was well on its way to a mortgage-backed programme, but the peso devaluation sent the country into economic crisis and put such plans on the back burner.

It has taken Argentina more than a year to introduce the regulations to promote the growth of a secondary mortgage market. In addition, the government and banks have been working to standardise the housing finance sector so that mortgages are sufficiently uniform to allow them to be pooled and securitised.

"There are a zillion details," says Mr Howard Hill, managing director of the securitised products department at DMG. He says he expects to price a first deal as soon there are about $100m worth of eligible loans from the participating banks, which could be as early as May.

Meanwhile, bankers at First Boston expect their programme to raise more than $100m and be completed by April. It involves securitising loans made to middle and lower-income families by commercial banks and then purchased by the Banco Hipotecario Nacional, a state housing bank. BHN will function like the Federal National Mortgage Association (Fannie Mae), the largest provider of mortgage funds in the US, by pooling the loans – although initially it will not guarantee the mortgage-backed securities it issues.

Mr Jeffrey Hoberman, an adviser to the board at BHN, says that the deal could lower mortgage rates by as much as 2 percentage points. "It means that a lot more families can begin to dream of coming into the financial system," he says.

But Mr Bertrand Renaud, a housing finance adviser at the World Bank, worries that bringing international capital to the housing sectors of Latin American nations may slow the evolution toward higher domestic savings. That, in turn could continue a reliance on international money that – as was proven last year in Mexico – can flee very quickly.

He points to Cagamas, Malaysia's national mortgage corporation that issues its own debt to buy home loans from local banks, as a better route because the institution is entirely domestically financed. One big difference, however, is that domestic savings rates in south-east Asia last year were 32 per cent of gross domestic product versus 21 per cent in Latin America, according to ING Barings estimates.

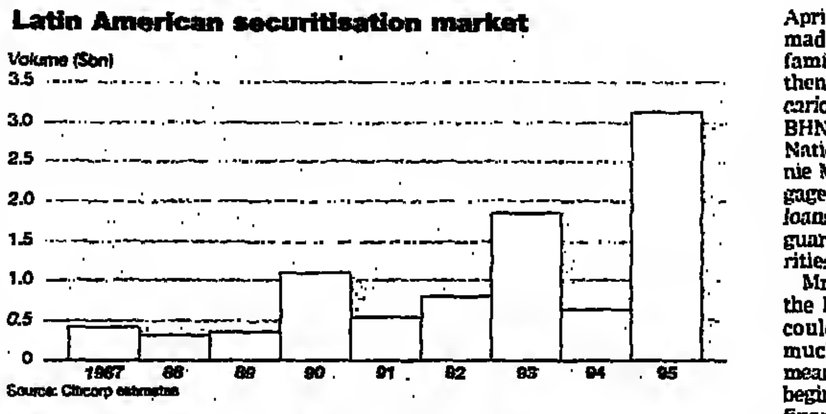
International investors buying the Argentine securities face big risks. Since there was no substantial mortgage lending in Argentina until 1992, a year after the government stabilised the economy by pegging the peso to the dollar, there is very little information about the risk of such investments. There are also the issues of country and currency risks: Argentine mortgages are nearly all dollar-denominated, eliminating most direct currency risk, but if the government did devalue, borrowers would face bigger obligations and thus be more likely to default.

For just these reasons, Moody's and Standard & Poor's, the US credit rating agencies, do not generally rate private debt higher than the relevant government's debt. But First Boston hopes to get an investment-grade rating on at least some tranches of the programme, based on the value of the homes and the fact that the loans would be held by trusts that would be difficult for the government to tap were it to run into economic crisis.

The recent spate of asset-backed issues that have secured investment grade ratings should help, says Mr Frederick Terrell, managing director in First Boston's structured products group who is leading that bank's Argentine mortgage deal. "Any transaction which allows an investor to look beyond sovereign risk is a step in the right direction in the development of a liquid mortgage and asset-backed securities market."

**Lisa Bransten**

Latin American securitisation market




Source: Citicorp estimates

# Wall St sees Taurus ascendant as unconvincing sign

## Profits have stalled as Ford funds expensive new versions of its biggest sellers, reports Richard Waters

When he took over the helm of Ford Motor in the autumn of 1993, Mr Alex Trotman was in expansive mood.

The first foreigner to run a US automobile company, Mr Trotman – a Briton by birth – promised to turn Ford into the world's best maker of cars and trucks. To most observers, that meant catching Toyota of Japan, whose cars had set the pace in vehicle design and manufacturing efficiency. It also seemed to hint at an intention to overtake General Motors to become the world's biggest carmaker (though Ford has always denied it is not driven by such a volume target).

Ford would also, he said, remake itself to become the first truly global automobile company. With common vehicle development and production methods, it would be in a position to set the pace in the worldwide automobile industry.

Little more than two years on, Mr Trotman's dreams are on hold. Profits from Ford's automotive businesses dried up in the final months of last year; according to the company, they are unlikely to recover much in the first half of this year. Its share price has floundered as Wall Street has transfered its affection to a resurgent GM and the more profitable Chrysler.

The question is whether this represents a temporary dip in Ford's fortunes, or whether it points to more lasting problems. Ford's recent travails owe a lot to weakening new vehicle markets on both sides of the Atlantic.

Americans have not been willing to spend as much on new vehicles during the current period of economic expansion as the automobile industry had expected – and while they have been eager buyers of sports utilities, minivans and pick-up trucks, demand for passenger cars has sagged.

Sales have stalled at about 15m in each of the past two years – a comfortable level, but not the boom Detroit had been expecting. With the US economy slowing and consumers more deeply in debt than at any time since 1989, there seems little prospect of any further surge in sales.

That, and Europe's economic difficulties, have hit Ford at an unfortunate time. Under Mr Trotman's ambitious direction, the company is rolling out new versions of some of its biggest selling vehicles, including the Taurus and F-series pick-up trucks in the US and the Fiesta in Europe. These models account for more than a third of its sales, but such changeovers lose profits, as discounts have to be raised to shift the last of the old models and launch costs bite.

So Ford's flagging profitability is in part an accident of timing. "We think, after a couple more quarters, things will be on the way up," says Mr David McCammon, Ford's vice-president for finance. The company has demonstrated its confidence in the future by raising dividends twice last year, even as profits fell, he adds.

In other ways, though, Ford has squandered the chance to steal a march on its rivals, pointing to problems.

First, in its pursuit of higher quality – and the higher prices that go with it – Ford has looked in danger of losing touch with its customers. The problem is best summed up by last autumn's launch of a new version of the Taurus mid-sized saloon, the biggest-selling car in the US. Ford set about completely overhauling the vehicle – at a cost of $3bn – to make it the most luxurious, technologically advanced car in its class.

But it risks pricing the car out of its market. "We may have made too big a leap," says Mr McCammon of the new Taurus' price. Buyers had grown accustomed to the big discounts on old models, he says.

Sales of the new Taurus have recently started to pick up. But Ford has tacitly owned up to its mistake by offering $600 discounts on the car and, this week, unveiling a new, no-frills model.

Ford's product fallibility raises an awkward question as it embarks on its globalisation drive – a project known as Ford 2000. Success will turn on the company's ability to create vehicles which appeal to buyers in all markets, and which require only a minimum of adaptation for national taste.

A second question surrounds Ford's control of costs. Its manufacturing efficiency (generally judged in terms of man hours per vehicle) is among the best in the business. Having acted more aggressively than its domestic rivals to close unneeded plants at the beginning of the 1980s, it has also enjoyed a high rate of capacity utilisation – at least, until the recent weakness in demand for cars in the US. Its total costs, though, are less impressive, largely because of two other components: product development, and purchasing.

The $3bn Taurus was preceded by the company's first "world car", the $6bn Mondeo (known in the US as the Contour). Such costs put Ford out of line with competitors such as Chrysler, which, admits Mr McCammon, "seems to come out with new models spending less money than we do".

The response has been a renewed emphasis on what Ford calls "affordable cost": setting a desired retail price for a vehicle at the beginning, then building the costs around that target.

In its purchasing, meanwhile – which accounts for about half of total vehicle costs – Ford has set an ambitious target to hold its costs at 1995 levels in 2000. To do that, it plans to cut the number of suppliers it deals with from 2,300 to 800. By building closer relationships – a practice pioneered by Japanese manufacturers – the company hopes to be able to influence its suppliers to reduce their own costs.

Already, though, Ford has indicated that its materials costs will be higher in 1996, adding to the future pressure to hit the target.

According to the company's executives, these are all problems that can be ironed out. It is impossible to judge the success of a vehicle like the new Taurus in its first few months; the hefty change-over costs that are weighing on its profits will pass, pushing up profit margins in the second half of this year. And as the decade rolls on, the benefits of Ford 2000 and other cost initiatives will begin to materialise.

To judge by the company's share price, though, these messages have not been heeded on Wall Street. The company's dividend yield, at 4.7 per cent, is more than twice the market average, even though its cash generation is strong and there is no threat of dividend cut for the foreseeable future.

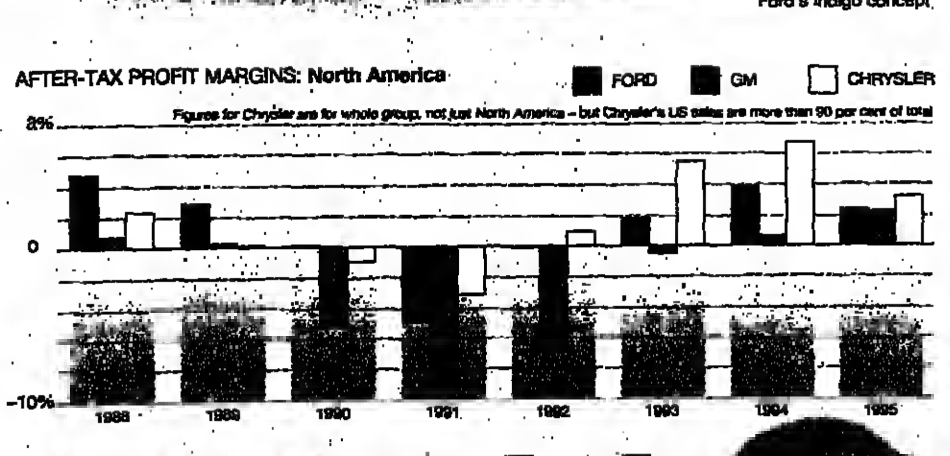
Also, Ford's share price does not reflect the earnings power of its various businesses. The company's financial services operations alone – which earned $2.1bn after tax last year – are probably worth about $19bn, according to Mr Jack Kirnan, an auto industry analyst at Salomon. Add in its net cash and over-funded pension fund, and the group's non-automotive operations are worth about $29bn, or $29 a share, he adds – close to the $30 a share at which the entire group was trading yesterday.

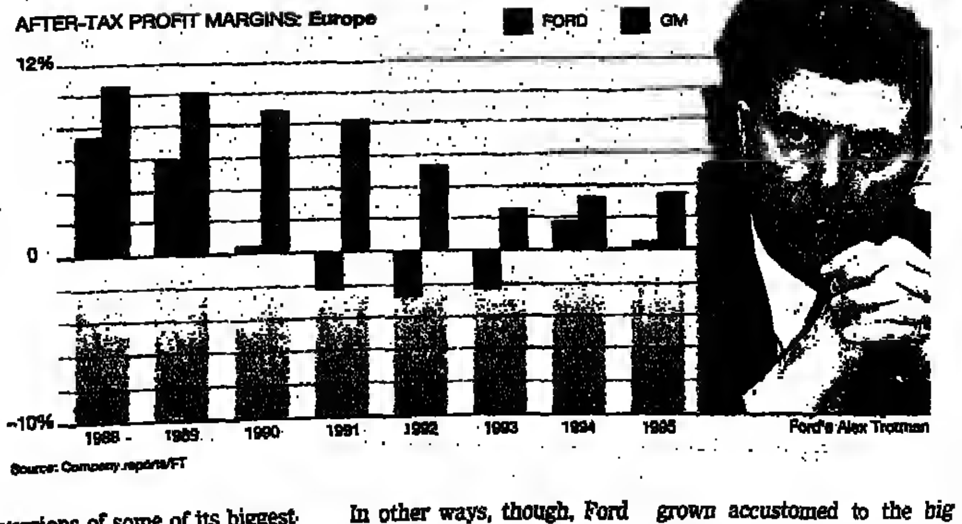
To kick-start its flagging share price, Ford has hinted that it will sell one part of its financial services business (US leasing, reckoned to be worth $1.5bn) and obtain a stock market listing for another (the Associates, a 20 per cent slice of which could raise as much again). The effect has been negligible.

Mr Trotman's dream for Ford may yet come true. For now, though, the financial world has made clear that it is far from convinced.

US automakers

Ford's Indigo concept




Source: Company reports/FT

Ford's Alex Trotman

AMERICAS NEWS DIGEST

## Aetna adds $218m to asbestos reserves

Aetna, the US insurance group, has added $218m after tax to the asbestos reserves of the property/casualty insurance operations it has agreed to sell to Travelers for $4bn. Some $126m of that, however, is covered by the sale of securities that were held in the business that is being sold, the company said yesterday. The reserve strengthening follows a $750m charge taken last summer, which had been expected to mark the final cost before departure from the property/casualty business.

The company's continuing life and health insurance operations, meanwhile, registered a dip in operating earnings during the final quarter of last year, a result the company attributed to investments it had made to build its health insurance business. Earnings from continuing operations were $119m, or $1.03 a share, down from $1.15 a share the year before, as income from the health side fell 17 per cent to $72m.

Aetna's latest quarter included a $29m gain from the sale of securities in its continuing operations, and earnings in its discontinued property/casualty operations (after the reserve addition and securities sales there) of $28m. In all, the company reported net income of $176m, or $1.53 a share, in the latest quarter, compared with $160m the year before. For the full year, after-tax profits were $252m, or $2.21 a share, down from $468m the year before. The 1995 results included a $222m loss from the businesses to be sold. *Richard Waters, New York*

## Northrop Grumman up sharply

Northrop Grumman, the US military aircraft specialist, yesterday credited its fast-growing electronics business with raising sales and earnings to record levels last year.

Fourth-quarter net earnings of $1.17 a share, on sales down 4 per cent to $1.8bn, compared with a net loss of $2.45 after charges in the same period of 1994, brought full-year profits to $252m, or $5.11 a share, on revenues of $6.8bn.

Net income in 1994 was reduced to $35m or 72 cents a share, partly by restructuring costs including a voluntary early retirement programme and asset and property disposals. The company, which is currently buying the Westinghouse group's defence and electronics business for $3bn cash, said the transformation from an aircraft company to an electronic sensors and systems integration concern would help annual turnover reach more than $10bn by 2000.

The benefits of buying the Grumman electronics business in April 1994, showed through particularly strongly in the last quarter of 1995. Electronics sales were 35 per cent up in the three months and 40 per cent higher over the full year. Operating profits, up 47 per cent for the year, were 77 per cent higher in the quarter. Fourth quarter operating earnings for aircraft fell as margins and sales declined and research and development costs rose. Incoming orders also shrank during the year – mainly because of sharply lower demand for aircraft – to $4.6bn compared with $12bn. The value of outstanding orders was down from $12bn to $10bn.

*Christopher Parkes, Los Angeles*

## Fourth term hits Algoma result

Algoma, Canada's third-biggest steel maker, posted net profit of C$1.8m (US$1.3m) or 4 cents a share in the final quarter of 1995, down from C$47.7m or C$1.82 a share a year earlier, on sales of C$292m against C$285m. The drop was caused by lower sheet prices, higher unit costs and special charges.

For the full year, net profit was C$109.6m or C$3.14 a share against C$127.3m or C$4.85 a share in 1994, on sales of C$1.2bn against C$1.09bn. Algoma has completed a blast furnace relining and expects a recent 3 per cent price increase for sheet to hold. It plans to operate at full capacity in 1996.

*Robert Gibbens, Montreal*

## Bre-X Minerals plans stock split

Bre-X Minerals, the Canadian mining group that has made a valuable gold find on Kalimantan Island, Indonesia, plans to split its stock, possibly 10 for one. The share price has risen from a 52-week low of C$1⅞ to C$108, valuing the company at more than C$1bn (US$720m). It now stands at C$104. Bre-X trades on the Alberta stock exchange and is being listed soon in Toronto and on Nasdaq in New York. Details of the split will be given at the March 14 annual meeting. *Robert Gibbens*

## RTZ-CRA unit to build plant

Quebec Iron & Titanium, owned by the world's biggest mining group, RTZ-CRA, will build a US$260m upgrading plant at its Sorel ilmenite smelter near Montreal. Start-up is scheduled for late 1997, with initial capacity of 200,000 tonnes a year.

The smelter processes ore from the Lower St Lawrence into titanium slag, which is used in making titanium pigments for the paint and plastics industries, and ductile iron for world markets. The new upgrading unit, which may eventually be expanded to 600,000 tonnes yearly, will produce a 95 per cent titanium dioxide suited to the latest pigment manufacturing processes. *Robert Gibbens*

## Rhône-Poulenc in Brazil sale

Rhône-Poulenc, the French chemicals group, said its Brazilian unit – Rhodia – had agreed to sell all of its shares in vinyl acetate monomer producer Companhia Alcoolquimica Nacional – a stake of 95 per cent – to Union Carbide of the US. CAN, based in north-eastern Brazil, is the only South American producer of vinyl acetate monomer, which is widely used in the coatings and adhesives industry. The sale, which is in line with Rhone-Poulenc's strategy of focusing on its core business, should be completed by the end of this month.

*Reuter, Paris*

## COMPANY NEWS: UK

# Six respond to CleriMed bid invitation

**By Alison Smith and Ralph Atkins**

Six financial services companies are thought to have made formal offers for Clerical Medical, the mutual life assurer, following its decision to invite bids from potential purchasers.

The six are believed to be: Sun Alliance and Commercial Union, two large UK composite insurers; National Westminster Bank and Abbey National, two banking groups which already own life assurance subsidiaries; and Aegon and Fortis, two continental European insurers.

A shortlist should be compiled within the next week or so, although an announcement of any deal is likely to be several months away.

CleriMed has £13bn of funds under management and has an estimated value of up to £1bn. Its strength lies in its experience of designing products for sale through independent financial advisers, and in its brand name. It also has an international business.

The types of financial organisation which have expressed an interest in CleriMed highlight the changes taking place in the UK life sector.

Sun Alliance, for example, has been seeking an acquisition in the UK life sector to bring economies of scale to its existing operations. Clerical Medical would have strong attractions – not least because like Sun Alliance, it has back office functions in Bristol, giving scope for rationalisation.

Among the banks and building societies selling life assurance and investments through their branch networks – the pressure has been to diversify within the long-term savings market.

For overseas insurers, the UK market is on the brink of looking more attractive, with prospects of growth in long-term savings and personal pensions. Aegon, the Dutch insurer, bought Scottish Equitable in 1994.

Rise of 14% despite further loss of passengers to Eurostar

# Higher retail spending boosts BAA

**By Geoff Dyer**

BAA, the airports group, improved nine month pre-tax profits by 14 per cent despite the increasing loss of passengers to the Eurostar train services through the Channel Tunnel.

Higher retail spending by passengers helped pre-tax profits rise from £328m to £374m ($576m) in the period to September 30 which were struck on revenue 7 per cent higher at £987m (£926m).

However, although the figures were at the top end of analysts forecasts, the shares fell 3p to 486p after the launch of a £250m 10-year convertible bond led some shareholders to fear dilution.

Mr Russell Walls, finance director, said the group's first convertible bond issue was part of a strategy of diversifying funding sources. The money would be used to finance on-going capital expenditure.

If all the bonds were converted, it would result in the issue of 4.8 per cent of new equity, he said.

However, Mr Walls said the group had not changed its policy of not issuing shares to fund its core businesses.

Revenue from retailing increased 10 per cent to £440m (£402m). Mr Walls said that the net income per passenger had grown by 4.1 per cent, against 3.4 per cent in the first two quarters.

Income from traffic and airport charges was 5 per cent higher at £380m (£364m) and property income improved 11 per cent to £157m (£141m).

In January 6.3m passengers travelled through the group's airports, a rise of 5.8 per cent, the same rate of growth as for the nine months.

However, European scheduled traffic, which increased 3.3 per cent in 1995, rose by only 1.5 per cent because of competition from Eurostar.

The Monopolies and Mergers Commission, which is conducting an investigation into the group's charges, is expected to publish its report in July.

Russell Walls: diversifying its sources of funds

# EU prompts Prudential restatement

**By Alison Smith, Investment Correspondent**

Prudential, the UK's largest life assurer, yesterday issued restated accounts for 1994 and the first half of 1995 to prepare investors for accounting changes which will significantly affect its results for last year.

The changes come from the need for UK insurers to comply with the EU insurance accounts directive in producing their full-year results for 1995.

The restatement underlines the volatility that the changes will bring to the profit and loss account. For 1994, the restatement takes pre-tax profits from £603m to £358m ($550m), while for the first half of 1995 it increases them sharply from £335m to £499m.

This is because the directive alters the treatment of investment gains, so these are included as actual gains rather than averaged out over five years.

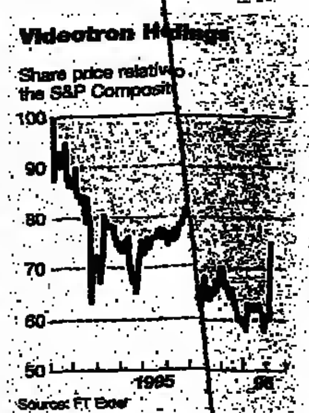
The directive also requires any amounts that can be clearly attributed to shareholders to be counted in shareholders' funds. This leads the Pru to an increase in shareholders' capital and reserves. This figure rises on the restatement from £733m in 1994 to £1.26bn; and from £959m to £1.53bn in the 1995 interim results.

## LEX COMMENT

# Videotron

The much-needed consolidation of the UK cable industry has taken a further step forward. The logical buyer for Videotron, put up for sale yesterday by its Canadian parent, is another UK cable group. Possible bidders include TeleWest, Nynex CableComms and Bell Cablemedia, a part owner of Videotron which has itself been subject to takeover rumours. The rationalisation of the industry into a smaller number of big operators is essential if the companies are to compete effectively in pay-TV and telecoms. Forming clusters of cable franchises in contiguous areas cuts costs, as it is then easier to build a service networks. Bigger groups would have more clout, helping them secure cheaper network equipment and giving them the critical mass to acquire programming rights. It would also give them stronger negotiating positions vis-a-vis BT and BSkyB, which dominate their markets.

Whether this will be enough to return the sector to popularity is questionable. Market leader TeleWest has underperformed the stock market by a third over the past year. Even after yesterday's 25 per cent jump, Videotron is still below last spring's flotation price. A bidding war for Videotron would boost valuations, but most of the interested parties are likely to offer shares rather than cash. Corporate activity alone cannot disguise the fact that cable penetration rates in the UK have remained stuck at a dismal 21 per cent for the past three years – too low for worthwhile profits, let alone a decent return on investment.




# US fund controls future of GPA

**By John Murray Brown in Dublin**

GPA, the aircraft leasing company, has warned that the refusal of one of its creditors to back its planned $2.7bn debt refinancing could force it into liquidation.

The Ireland-based company, which almost collapsed following a failed share flotation in 1993, said it would have to withdraw the refinancing plans, unveiled in July, unless it won the backing of the Public School Employees' Retirement System. Mr John Tierney, deputy chief executive, said negotiations would take place in New York over the next couple of weeks.

Its announcement is the first formal indication that the refinancing may have run into problems. "There can be no assurance that this would not lead to GPA seeking court protection from its creditors in Ireland and other relevant jurisdictions," the company said.

The refinancing involves the repayment of up to $2.7bn of bank debt through a bond issue of up to $4bn. This would be funded by the securitisation of about 229 aircraft, half GPA's fleet, and related leases.

If the refinancing went ahead, GPA said, all its 100 or so secured bank creditors would be repaid in full. The improved debt position would also help the unsecured creditors, owed about $1.2bn.

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# Once bitten twice shy, insist bankers

But **Antonia Sharpe** wonders just how fresh the lessons of the 1980s are in their minds

The large loans that are bankrolling the UK's takeover spree have raised concerns that bankers are forgetting the hard lessons they learnt only a few years ago, when the acquisitive companies of the 1980s came unstuck.

Certainly, the arrangements that have financed recent takeovers are audacious.

Granada, the TV and leisure company, arranged a £2.5bn ($3.85bn) underwritten facility from just three banks, Barclays, ABN-Amro and Chemical, before it pounced on Forte, the hotel company.

Farnell Electronics, the Leeds-based components distributor, negotiated a £540m underwritten facility from NatWest to help pay for the planned £1.85bn purchase of a leading US distributor, Premier Industrial Corporation.

But bankers are adamant that they are not sowing the seeds of future financial disasters. "The bad memories of Isosceles, Maxwell and Polly Peck are still fresh in our minds," says one banker who went through the pain.

They say that these bad experiences have conditioned the way they now do business. For example, they are placing much greater importance on whether the cash flow of the target company can meet the interest payments on the loan.

One banker recalls that in the late 1980s, cash flow projections were hardly ever requested. At that time, the emphasis was on cutting costs and disposing of assets in order to repay the loan. "People would come in to ask for a loan to take over a company whose historical cash flows could not have paid the interest. Even so, such deals got done," he says.

Another difference this time is that banks are not backing risky management buy-outs or grandiose property developments. In recent years, the average MBO in the UK has been about £50m-£100m.

Railtrack, the soon-to-be-floated company which has taken over British Rail's track, stations and signalling operations, is unlikely to find backers to fund Broadgate-style developments at King's Cross and Paddington so soon after the Canary Wharf fiasco.

Instead, banks are choosing to back takeovers which they believe to have "industrial logic", and where they have a long-standing relationship with the acquirer.

Several high-profile M&A deals bear out this strategy: Glaxo's takeover of Wellcome, the merger of Crown Cork & Seal, the US packaging company, with Europe's Carnaud MetalBox, and Farnell's purchase of Premier.

Even in the case of Granada, the repayment of the facility is not conditional on the disposal of Forte's hotels. "Granada is not under pressure to achieve disposals because of the financings," says a treasury official at the company.

To reduce the risk of having too large an exposure on one deal, banks are syndicating their loans more widely. For example, by syndicating the Granada facility to a further 16 banks, the three main underwriters reduced their participation from £800m each to about £118m, even before the facility was drawn. They could cut their exposure further by asking even more banks to join in. NatWest is also expected to syndicate the facility it has underwritten for Farnell.

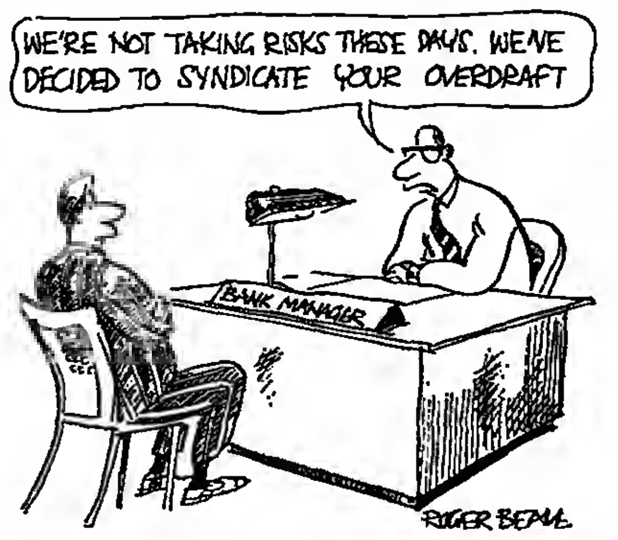
Fears that acquisition financings have been secured without covenants appear unfounded. The facilities for Granada and Farnell both carry important financial covenants relating to interest cover and cash flow. For example, Granada's interest cover covenant is believed to have been set at 2½ times, compared with its current cover of 4-times before disposals.

Banks are also spending more time researching the target company rather than relying on what the buyer tells them. Mr Andrew Fisher, Farnell's finance director, says that as well as going through the numbers thoroughly, NatWest bankers went to the US to meet the various tiers of management at Premier. It also investigated US legal and environmental issues before agreeing to make the loan.

Companies, too, are taking greater care to protect themselves against unexpected events, such as a sudden rise in interest rates or currency movements. For example, since Farnell's loan will be serviced from Premier's cash flow, the facility from NatWest is denominated in dollars not sterling. The facility has a floating rate of interest, but by entering into a derivatives-based transaction called a swap, Farnell has secured a fixed rate of interest of 6¾ per cent on the six-year loan.

Although derivatives have acquired a risky reputation after some companies lost large amounts of money by using them for speculative purposes, many companies and governments use them prudently to manage their debt liabilities. Granada is also believed to have used a swap to achieve a fixed-rate of interest on its loan.

However, proof of whether banks really have become averse to risk should not take long to emerge. If Sir Rocco Forte can raise the £1.5bn-plus needed to buy back his hotels from Granada supported by just £300m of equity, says one commentator, then they have not changed their spots at all.



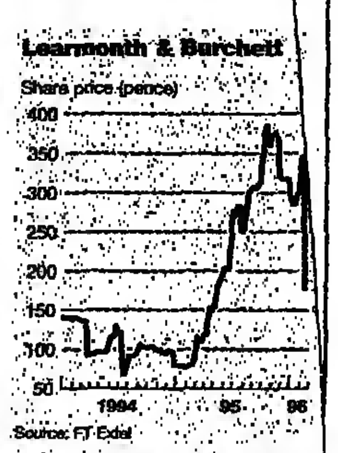

## DIGEST

# Shares in LBMS plunge on warning

The shares in Learmonth & Burchett Management Systems dived 45 per cent from 323p to 177p after it warned of third quarter losses following lower than expected revenue for the period. However the software company was unwilling to say whether the losses would wipe out interim profits of £496,000.

When the company reports its results for the quarter to January 31 in two weeks time total revenue is expected to be between $9.5m and $9.75m (£6.33m). It blamed the shortfall on revenues outside the US, particularly the Asia Pacific region.

Mr Rainer Burchett, chairman, said that improvements in turnover were taking longer to achieve than expected. However the company was not taking any immediate action as it had yet to analyse the reasons for the shortfall. *Nigel Clark*




## Morgan Crucible buys Magna

Morgan Crucible, the speciality materials group, has moved into the Asian chemicals market with the HK$171.5m acquisition of an 80 per cent stake in Magna Industrial Company, based in Hong-Kong, with the option to obtain the rest after 18 months.

In the year to September 30, Magna made pre-tax profits of HK$31.4m on sales of HK$144.8m. Net assets were $HK62.2m, including HK$46.9m of cash being retained by the vendors. *Motoko Rich*

## Brasway expands in France

Brasway, through its Europower Hydraulics offshoot, has acquired a 35 per cent stake in Solytra Flexibles, a French distributor of rubber and thermoplastic hose and fittings, for £222,000 ($342,000) in cash.

Europower has an option to acquire the remainder of Lyon-based Solytra, for an amount between £385,000 and £1.93m, no later than December 2001. If Europower does not buy the remainder, the 35 per cent stake will be sold back to Solytra at the original price.

## Senior Engineering purchases

Flexonics, the US division of Senior Engineering Group, has bought two makers of Teflon hosing and assemblies for a total of £7.7m ($12m). Habia Teknofluor of Sweden was purchased for SKr27m (£2.6m), and Jackson Industries of Chicago for $7.8m (£5.06m).

Habia's sales of 1995 were SKr73m. Jackson had sales of $9.5m.

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Dividends: Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BAA | 9 mths to Dec 31 | 987 | (926) | 374 | (328) | 27.4 | (23.9) | - | - | - | - | 10.125 |
| Betacom | 6 mths to Dec 31 | 6.9 | (8.4) | 0.257 | (0.216) | 0.36 | (0.31) | nil | - | nil | - | nil |
| Conrad Ritblat | 6 mths to Nov 30 | 7.57 | (5.98) | 0.764 | (0.673) | 4.62 | (4.29‡) | 1.65 | Mar 29 | 1.5‡ | - | 5.75‡ |
| Continental Foods | 6 mths to Oct 31 | 15.2 | (7.57) | 0.807 | (0.432) | 4.7 | (4.6) | 1.15 | Apr 19 | 1 | - | 3.5 |
| Elbief | 6 mths to Oct 31 | 2.7 | (2.3) | 0.027 | (0.029L) | 0.2 | (0.2L) | nil | - | nil | - | nil |
| Excalibur | 6 mths to Oct 31 | 30.5 | (29.8) | 0.241♥ | (1.03) | 0.2 | (1.2) | 0.3 | May 2 | 0.3 | - | 0.75 |
| Osprey Comms | Yr to Sept 30 | 26.5 | (28.9) | 1.84L♠ | (0.192♠) | 6.79L | (1.15) | nil | - | nil | nil | 0.1 |
| Owen & Robinson | 6 mths to July 31 | 10.25 | (3.72) | 4.17L♠ | (0.081) | 16.96L | (0.41) | - | - | - | - | - |
| **Investment Trusts** | | **NAV (p)** | | **Attributable Earnings (£m)** | | **EPS (p)** | | **Current payment (p)** | **Date of payment** | **Corresponding dividend** | **Total for year** | **Total last year** |
| Amicable Smaller | Yr to Dec 31 | 153.33 | (131.73) | 1.17 | (1.16) | 2.92 | (2.88) | 1.5 | Apr 5 | 1.4 | 2.9 | 3.1 |
| Angerstein | 6 mths to Nov 30 | 98.88 | (91.65) | 1.65 | (1.47) | 1.39 | (1.24) | 1.1 | Mar 5 | 0.8 | - | 3.05 |
| Continental Assets | Yr to Dec 31 | 208.3 | (199.4) | 0.595 | (0.584) | 2.72 | (2.87) | 3 | Apr 12 | 3 | 3 | 3 |
| Murray European | Yr to Dec 31 | 69 | (63.9) | 1.64 | (0.074L) | 0.6 | (0.61) | 0.36 | May 3 | 0.35 | 0.36 | 0.35 |
| Schroder Med | Yr to Dec 31 | 329.2 | (300.6) | 0.278 | (0.096) | 2.54 | (0.87) | 1.5 | May 16 | 0.75 | 1.5 | 0.75 |
| Yeoman | Yr to Dec 31 | 296.5 | (176.6) | 3.9 | (3.77) | 15.85 | (15.3) | 2.5 | Apr 4 | 1.8 | 14.4 | 13.7 |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ‡Adjusted for consolidation.

## COMMODITIES AND AGRICULTURE

# Hogg seeks EU action to end German beef ban

By Deborah Hargreaves

Mr Douglas Hogg, UK agriculture minister, said yesterday that action by three German Länder to ban British beef imports was "illegal."

He had taken up the issue with the German government and the European Commission and said he hoped the commission would take action this week.

"It is a very serious problem. It is clearly illegal and we want to get the commission to take action against the federal government so that they can put pressure on the Länder," he told farmers at the annual meeting of the National Farmers' Union of England and Wales.

Mr Richard Haddock, a Cornish farmer told the meeting he had lost £40,000 about 18 months ago when the Germans imposed a ban on beef imports and was losing £2,000 a week before Christmas because of consumer fears over mad cow disease. Germany has been wary about British beef because of concern about bovine spongiform encephalopathy, or mad cow disease.

Mr Hogg encouraged farmers to tackle the slaughter industry over the charging of a levy by abattoirs to remove certain offal believed to be associated with BSE from carcasses. "There should be a nice tussle, but I'm against unilateral levies," Mr Hogg said.

Reform of the European Union's Common Agricultural Policy was necessary because the current policy was "not sustainable in the face of internal and external pressures upon it," he told farmers. He said the success of the CAP was being bought at a price to consumers and taxpayers which they were increasingly unwilling to pay.

Mr Hogg said he was pressing Brussels to agree a "light-weight" regime for potatoes that would have the effect of preventing state aids to producers.

Some countries would like to introduce more extensive market manipulation including intervention.

He also said the UK had asked for a one per cent increase in its milk quota in return for a 5 per cent reduction in support prices.

# Oil stocks 'lowest since 1980'

By Robert Corzine

The extent to which oil stocks are rebuilt in the US and Japan will be a crucial factor in future oil price movements, according to the International Energy Agency.

In its monthly oil market report, the Paris-based agency, which monitors the oil market on behalf of the main western industrialised countries, said stocks in OECD countries at the end of last year were at the lowest level since at least 1980.

"At 59 days of forward demand, stocks were five days and four days lower than in the previous two years," said the report. The largest volumetric decrease was in the US, where a switch to new "just-in-time" stock management techniques by refiners led to a sharp fall in stocks.

But the agency noted that Japanese stocks at the end of last year were 30m barrels lower than at the end of 1994. That was "as great a decrease as in the US in percentage terms", it said.

The Japanese stocks were equivalent to 74 days of demand, only four days higher than the mandatory level set by the Japanese government.

Some refiners have cut stocks as part of cost-cutting programmes. The perception that there are ample supplies has given them the confidence to do so. But in recent months such practices have led to sharp and sudden price swings.

The IEA said another critical factor for the markets would be whether European refiners copied their US and Japanese counterparts.

The agency also reported that world oil supplies rose substantially last month as output was restored in countries outside the Organisation of Petroleum Exporting Countries after weather-related cutbacks in December.

It said total supply in January reached a record 71.8m barrels a day. That was 855,000 b/d above the December level, and reflected a rise in output from the North Sea, Latin America and Asia.

### MARKET REPORT

# 'Over-cooked' coffee prices fall 6%

London Commodity Exchange robusta COFFEE futures slid almost 6 per cent yesterday on speculative and producer selling, but ended just above a seven-day low.

"There has been good speculative and trade selling as well as some producer sales," said one trader. "The market had been over-cooked for some time," said another.

An early upturn in LCE COCOA futures ran into producer selling and long liquidation in the afternoon and all prices ended lower.

Compiled from Reuters

# Ukraine's president faces agricultural showdown

**Matthew Kaminski reports on a communist attempt to force 'recollectivisation'**

Ukraine's parliament has set the stage for an imminent political showdown with the president over agricultural reform by adopting a controversial privatisation law.

The communist-dominated chamber last week passed a statute that proposes to give collective farm directors a free 51 per cent stake in the country's agro-industrial companies, mostly in food processing and handling.

President Leonid Kuchma, after furious lobbying by market reformers, vetoed a similar law last year. But parliament has returned the law largely unchanged, effectively removing half the companies from the country's voucher privatisation programme. Mr Kuchma can veto the new law in the coming weeks, a period apparently left open to interpretation as Ukraine lacks a proper constitution.

The parliamentary speaker, Mr Oleksandr Moroz, argues that the new privatisation scheme will solve the payments crisis in the sector by giving agricultural suppliers the majority stake in the production companies, which sometimes fail to cover outstanding bills. The law received strong backing from the large and influential agrarian party in parliament, closely urged Mr Kuchma to veto the bill.

Under communism, he added, collective farm bosses were among the strongest and most influential economic actors – and again consolidating their power would slow Ukraine's transition to a market economy.

**President Leonid Kuchma has to decide whether to veto, for the second time, a plan to give collective farm directors a controlling stake in the country's agro-industrial companies**

affiliated with the communist and socialist groupings.

As the statute is written the 4,270 agro-industrial companies – both private and state-owned – would be sold afresh, with collective farm bosses taking a free majority stake. Agro-industrial workers could mop up the rest through a closed auction or the remaining stake could be sold through the voucher programme. The law does not clearly specify, experts said.

"It's a real tragedy, a recollectivisation," argued Mr Serhei Tiriokhin, a deputy in the reform party, which this week

Western economists are worried that the scheme creates a sturdy vertical monopoly that will push up prices, freeze out vital foreign investment and slow recovery in agriculture.

"I'm not sure the President will have enough political will to veto it again," Mr Tiriokhin added.

About $720m in World Bank loans may be at stake. The blow to the government's privatisation effort and to the country's already weak property safeguards also worries reformers. But officials point out the law may be vague enough to be circumvented.

The state property fund, which opposes the law, expects the president to issue a decree taking some agro-industrial companies off the parliament's list, an official said.

Taking a stronger interest in economic reform than at any time in the past six months, Mr Kuchma last month called for speeding up privatisation and farm reform. The new rhetoric may indicate that the president is ready to use the veto for only the second time since taking office in 1994.

The government's agricultural reform measures have reduced state orders for grain – the target was 10m tonnes last year but they actually came in at 4.6m – and let farmers sell to different buyers at the commodity exchange opened last year.

Although some collective farms are getting broken up and private farmers are starting to appear in the country's western regions, land reform may prove to be the biggest hurdle for the Kiev government. Sensitive to the political opposition from the traditionally conservative agricultural lobby, it does not appear "willing to push the boundary on private property", a western diplomat said.

Even so, Mr Moroz, a fierce opponent of private ownership of land, on Monday stepped up the attack on the president's proposed farm reforms, calling on local governments to ignore a November decree cautiously mandating limited sales of land within collectives, which are slowly being broken up.

The agrarian lobby is also pushing for more subsidies. This week parliament considers a proposal to clear loans run up by state farms and agro-industrial companies.

# RTZ to build $260m Quebec titanium plant

By Kenneth Gooding, Mining Correspondent

RTZ-CRA, the world's biggest mining company, is to spend US$260m for a new plant at its QIT-Fer et Titane subsidiary at Sorel in Quebec.

The plant will use a new QIT proprietary process to upgrade feedstock for titanium dioxide, the white pigment used in paint and most other types of surface coatings.

RTZ-CRA claimed yesterday that the process converted its regular Sorelslag, containing 80 per cent titanium dioxide, into upgraded slag (UGS), a new 95 per cent titanium dioxide feedstock that has chemical and physical properties that provided high productivity and low waste disposal costs for titanium pigment producers.

The new plant will start up in the third quarter of next year. Initial annual capacity will be 200,000 toones of UGS and the plant is being designed for expansion in modules of 100,000 tonnes and for an ultimate capacity of 600,000. At present the Sorel smelter, on the south shore of the St-Lawrence river about 50 miles form Montreal, has an annual capacity of 1.1m tonnes of Sorelslag which could be increased to 1.4m tonnes by uprating existing furnaces. RTZ-CRA said QIT's ilmenite mine, near Havre St Pierre on the Gulf of St-Lawrence, had enough reserves to supply the smelter for "many decades".

# Fertiliser demand rise forecast

By Geoff Tansey

World fertiliser nutrient demand is forecast to increase by almost 18m tonnes from 1993-94 to 2003-04, according to a report published recently by FAO. An overall average growth rate of 1.2 per cent a year is forecast for the three major plant nutrients – nitrogen, phosphate and potash.

About 70 per cent of the growth of 10m tonnes in nitrogen is expected to be in Asia, 11 per cent in Latin America and 2.4 to 2.6 per cent in Africa and Oceana. In Western Europe, a decline of about 1.1m tonnes is expected by 2003-04.

A similar growth rate and pattern is expected for phosphate. A 4.5m-tonne increase is forecast, with Asia being the main growth area (61 per cent) and western European demand falling by 11 per cent.

Potash demand is forecast to increase on average about 1.4 per cent a year, or by some 3.4m tonnes overall. Again most growth is expected in Asia (68 per cent). Eastern Europe is expected to make up earlier consumption cuts while a decline of 1 per cent a year is expected in western Europe.

The figures are based on data produced by the FAO/Unido/World Bank Fertiliser Working Group in 1994. More recent data is being analysed but is not expected to change the picture fundamentally.

About 7m of the 7.5m tonnes of ammonia capacity planned to be built worldwide by 1997-98 will be in Asia, according to the report. Most will be built in India and China for domestic consumption.

All three nutrients are expected to be in surplus in 1998-99 but the group estimates that phosphate demand will reach 98 per cent of supply by the end of the decade. The position is becoming more complex as the expanded global trade in fertilisers has led to many more blenders, traders and importers appearing.

The aim of the medium to long-term projections is to provide ample warning of major shortages in the market and avoid the situation in the early 1970s when unexpected shortages led to major price rises.

*Current World Fertiliser Situation and Outlook 1992/93 - 1998/99. FAO, Rome, 1995.*

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE** (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne) · ALUMINIUM ALLOY ($ per tonne) · LEAD ($ per tonne) · NICKEL ($ per tonne) · TIN ($ per tonne) · ZINC, special high grade ($ per tonne) · COPPER, grade A ($ per tonne)

LME AM Official £/$ rate: 1.5370

HIGH GRADE COPPER (COMEX)

### PRECIOUS METALS

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

### Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.) · PLATINUM NYMEX (50 Troy oz.; $/troy oz.) · PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) · SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

### ENERGY

CRUDE OIL NYMEX (42,000 US galls. $/barrel) · CRUDE OIL IPE ($/barrel) · HEATING OIL NYMEX (42,000 US galls; c/US galls) · GAS OIL IPE ($/tonne) · NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) · UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

### GRAINS AND OIL SEEDS

WHEAT LCE (£ per tonne) · WHEAT CBT (5,000bu min; cents/60lb bushel) · MAIZE CBT (5,000 bu min; cents/56lb bushel) · BARLEY LCE (£ per tonne) · SOYABEANS CBT (5,000bu min; cents/60lb bushel) · SOYABEAN OIL CBT (60,000lbs; cents/lb) · SOYABEAN MEAL CBT (100 tons; $/ton) · POTATOES LCE (£/tonne) · FREIGHT (BIFFEX) LCE ($10/index point)

FUTURES DATA

All futures data supplied by CMS.

### SOFTS

COCOA LCE (£/tonne) · COCOA CSCE (10 tonnes; $/tonnes) · COCOA (ICCO) (SDR's/tonne) · COFFEE LCE ($/tonne) · COFFEE 'C' CSCE (37,500lbs; cents/lbs) · COFFEE (ICO) (US cents/pound) · No7 PREMIUM RAW SUGAR LCE (cents/lbs) · WHITE SUGAR LCE ($/tonne) · SUGAR '11' CSCE (112,000lbs; cents/lbs) · COTTON NYCE (50,000lbs; cents/lbs) · ORANGE JUICE NYCE (15,000lbs; cents/lbs)

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

### INDICES

REUTERS (Base: 18/9/31=100) · CRB Futures (Base: 1967=100) · GSCI Spot (Base: 1970=100)

### MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs) · LIVE HOGS CME (40,000lbs; cents/lbs) · PORK BELLIES CME (40,000lbs; cents/lb)

| | Sett Price | Day's change | High | Low | Vol | Open Int |
|---|---|---|---|---|---|---|
| Feb | 63.650 | -0.250 | 64.400 | 63.800 | 8,408 | 12,891 |
| Apr | 64.175 | -0.425 | 64.750 | 64.125 | 8,461 | 33,608 |

### LONDON TRADED OPTIONS

ALUMINIUM (99.7%) LME · COPPER (Grade A) LME · COFFEE LCE · COCOA LCE · BRENT CRUDE IPE

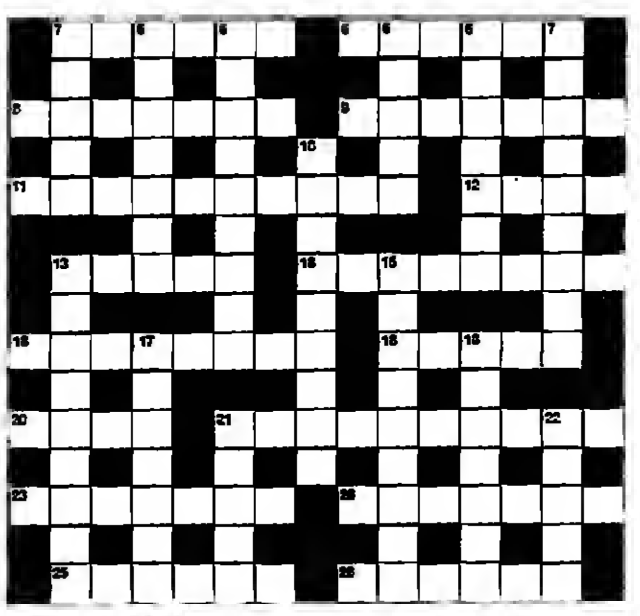
### LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel/Mar) · OIL PRODUCTS NWE prompt delivery CIF (tonne) · OTHER

## JOTTER PAD

## CROSSWORD

**No.8,988 Set by HIGHLANDER**



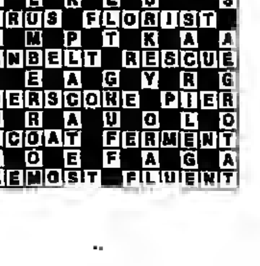
**ACROSS**

1 Embarrassed look at cheap whisky from America (6)
4 First in his missile school (6)
8 Send back uncooked food in battle (7)
9 Greater numbers are afraid of oral anaesthetic (7)
11 With underwear promise a duelling weapon (5-5)
12 Has a go at Hindi and shows promise (4)
13 Some singers have a fish one (5)
14 Relegation of the French (formal proposal) (8)
16 Abandoned Foreign Office, our sailors having accepted foreign wine (8)
18 Leaders of grave robbers back financial dishonesty (5)
20 Deliberately miss builder's container (4)
21 For "people" read out "concert enthusiast" (10)
23 Put topside to cook (7)
24 Work by lexicographers is cut short, in a manner of speaking (7)
25 Died before their broadcast, creating a bother (6)
26 Force sergeant major to go first, crawling (6)

**DOWN**

1 Get weapons again, rise and start to mutiny (5)
2 Makes foul passes (7)
3 Standard policemen's credit? (9)
5 Permitted by Speaker so as to be audible (5)
6 Standard raised over harbour to show affinity (7)
7 It was altered to cover part of suit (9)
10 Solidago or bar plant (9)
13 Put obstacles in way of principal idiot (9)
15 Mother covers girl with one that's metal (9)
17 Drink first, then drink second (7)
19 Special plug in advert on suitable connector for alternatives (7)
21 Top-quality and original brief (5)
22 Black and thin with a point on top (5)

**Solution 8,987**



## INTERNATIONAL CAPITAL MARKETS

# German recovery sparks rise in European prices

By Martin Brice in London and Lisa Bransten in New York

European government bond markets opened firmer after overnight Treasury strength and closed at higher levels yesterday. German bonds reversed their exaggerated correction of the past few days and bonds news helped them outperform Treasuries, while other European markets took their cue from Germany. In the US, traders awaited the afternoon auction of 10-year bonds. A successful auction may give a stronger tone to European markets this morning.

■ German government bonds opened healthier on the back of Treasury strength overnight and were helped by unemployment figures that came in slightly higher than some had expected. Suggestions from a Bundesbank council member that interest rates might soon be cut encouraged the short end of the curve.

German unemployment was reported to have risen to a record 4.1m in January, but Mr Julian Jessop, international economist at HSBC Markets in London, said that when the figures were seasonally adjusted, the rise was the same as in December. While other analysts suggested the record unemployment figures put German interest rate cuts back on the agenda, Mr Jessop said: "The Bundesbank's view has always been that the unemployment is structural and cannot be solved by cutting interest rates."

Shorter-dated bonds seemed heartened by the suggestion of an early cut in rates when Mr Mr Hans Juergen Krupp, a Bundesbank council member, said German M3 money supply growth was still weak and another interest rate cut may be needed.

The curve steepened as the yield on two-year paper fell 8 basis points and that on 10-yearpaper by 5 basis points, with the spread between the two maturities settling around 231 basis points. On Liffe the March 10-year bund future closed at 99.23, up 0.56. The yield spread of 10-year bunds over Treasuries tightened 3 basis points to 32.

The December figures for the M3 money supply were revised upwards from 2.5 per cent to 2.7 per cent, which means a change in the January figure would lead to a higher annualised headline rate and so increases the risk of a double-digit headline rate in January.

■ French government bonds largely tracked bunds although flows were said to be thin.

On Matif the March future settled at 122, up 0.10 while March Pibor closed at 95.59, up 0.13.

The curve steepened as the yield on one-year paper fell 8 basis points, while on 10-year bonds it tightened 1 point. The spread over bunds tightened 3 basis points to 43.

### GOVERNMENT BONDS

■ Italian government bonds closed off their highs in line with bunds as investors watched for signs that an end was in sight to the process of forming a government.

The spread over 10-year bunds rose 1 basis point to 420, and on Liffe the March future rose 0.43 to 112.15.

■ Spanish government bonds also tracked bunds, with the yield spread over 10-year paper tightening a basis point to 360.

■ The price action in UK government bonds followed bunds fairly closely and the March future on Liffe hit resistance at its high of 109½ and closed at 109$\frac{9}{32}$, up $\frac{3}{16}$. The spread over 10-year bunds tightened 1 basis point to 172 as gilts continued to trade in the 167-175 range. Traders said a good reception to the auction in the US overnight should see the market off to a good start today.

There appeared to be a decision not to move interest rates at the monthly monetary meeting of Mr Kenneth Clarke, chancellor and Mr Eddie George, governor of the Bank of England. The next set of domestic statistics that may move the market is the CBI distributive trades survey, which is due out tomorrow.

The yield on two-year bonds tightened 3 basis points and that on 10-year paper by 5, with the spread between the maturities settling at 134.

The Bank of England said two tranches of index-linked gilts were sold yesterday. They were £100m of the 2½ per cent due 2013, sold at £140.12, and £150m of the 4⅜ per cent due 2004, sold at £115.06.

■ Swedish government bonds had a volatile day with the planned SKr3.5bn of five-year auction stock reduced to SKr2.5bn and the yield on the nine-year benchmark government bond rising to touch 9 per cent, although sentiment later shifted and it closed with the yield at 8.79 per cent, said Mr Niels Skovvart, chief analyst at Unibank Securities.

The market recovered some of its health after the sell-off in recent days, and the spread over 10-year bunds tightened 2 basis points to 273. Yields generally finished lower with 7 basis point falls in the yield on both the one-year bond and the 10-year. The average yield on the auction stock was 8.19 per cent, while the yield on five-year paper fell 10 basis points to 8.19 per cent.

■ US Treasury prices were almost flat in early trading yesterday as dealers prepared for the afternoon auction of $14bn in 10-year notes that marks the second leg in the Treasury department's quarterly refunding operation.

Near midday, the benchmark 30-year Treasury was up $\frac{3}{32}$ at 110⅝ to yield 6.124 per cent, while at the short end of the maturity spectrum the two-year note was unchanged at 100⅛ to yield 4.916 per cent.

Traders were optimistic that the auction would be well hid after Tuesday's successful auction of $18.5bn of three-year notes. The Treasury completes its refunding today with the sale of $12bn in 30-year bonds.

In when-issued trading the 10-year note was yielding 5.65 per cent.

Activity was light in advance of the auction and there was little reaction to data showing that the US trade deficit fell to $7.1bn in November from $8.2bn in October. Analysts had expected the deficit to rise to $8.4bn.

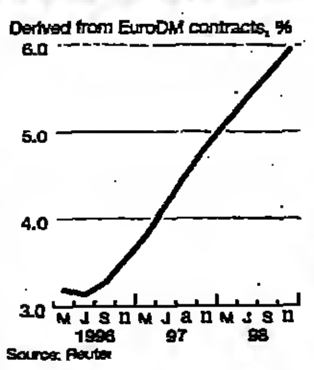
Mr David Bloom of James Capel raised his estimate of annualised fourth-quarter GDP growth to 1 per cent from ½ per cent because of the slowdown in imports.

Mr John Spinello, a strategist in government securities at Merrill Lynch, said the trade figures may have disappointed investors who were betting that the US economy would slip into recession.

But the trade figures did support bonds by boosting the value of the dollar against the yen and the D-Mark. In early trading the US currency was changing hands for DM1.4785 and Y106.15 compared with DM1.4716 and Y105.25 late on Tuesday.

**Interest rate expectations**

Derived from EuroDM contracts, %





Source: Reuter

# Lehman introduces the 'bear' certificate

By Nicholas Denton

Retail investors will be better able to short stockmarkets after the introduction by Lehman Brothers of the "bear certificate", a security which rises in value as shares fall.

The US investment bank is issuing DM222m worth of bear certificates based on Germany's DAX index. It is also considering similar products based on the CAC, Nikkei and S&P, the leading indices for the French, Japanese and US stockmarkets.

If over the two years to maturity of the certificates the DAX index falls below the reference level of 2,425, the bear certificates increase in value, and they fall as the DAX rises. If the DAX falls 50 per cent, the bear certificates will roughly double in price.

The issue price is DM22.19, one hundredth of the DAX index, and the certificates are expected to be open to investors with as little as DM2,500 to invest. They will be tradeable; Lehman will make a market in the certificates.

Lehman is also issuing DM243m of bull certificates, which increase in value in parallel with the DAX. If the DAX doubles, so do the bull certificates. Citibank and Commerzbank have issued bull certificates in Germany in the past few months, but Lehman believes they are Europe's first bear certificates.

In most markets, an investor already has several ways of shorting the stockmarket as a whole, betting on a decline in the index. They can sell futures on the index or buy a put option, which gives the holder the right to sell the underlying product at a preset price. Alternatively, an investor can sell representative stocks which he or she owns or has borrowed.

# BAA launches £260m sterling convertible issue

By Antonia Sharpe

BAA, the UK airports group, yesterday re-opened the sterling convertibles market when it launched a £260m 10-year convertible bond offering, the first deal since early 1994.

Pent-up demand for convertible paper was such that the deal was six times subscribed. "People were biting their arms off to get it," said one syndicate manager.

The strong response enabled the issuer to set a coupon of 5¾ per cent, at the bottom end of the 5¾-6 per cent range, an achievement which had been uncertain earlier in the week when bond markets fell. The conversion premium was set at 17.91 per cent, at the top end of the 15-18 per cent range.

The injection of fresh issuance into the starved convertibles market came at a price to the banks. Fees on BAA's deal were 2 per cent, against the usual 2½ per cent.

### INTERNATIONAL BONDS

Bankers said the fall in the fees was inevitable after last year's erosion of fees in the primary equity market. UBS acknowledged that the lower fees reflected competition among the banks to win business but added that the level was justified by the deal's size, its maturity and the double-A rating of the issuer.

The shortage of issuance caused BAA's bonds, which are callable in five years, to rise to 102 yesterday afternoon from an issue price of par. About 15 per cent of the bonds were sold into the US via a 144A placement, and there was also strong demand from Switzerland and continental Europe. Less than half of the bonds went to the UK.

Hopes are running high that BAA's offering will encourage more companies to tap the market which faces heavy withdrawals this year. Last week, Elf Enterprise, Finance said it was repurchasing £407.8m worth of exchangeable bonds, the largest buy-back in the market to date. Hanson, which plans to split into four companies, is widely expected to call its £500m convertible bond in the summer.

Among other deals yesterday, DePfa, the German mortgage bank, made a quick return with a second global Pfandbrief offering. The DM1.5bn deal, due 2001, was launched to soak up demand which remained after its first global Pfandbrief offering last week, said Mr Gerhard Bruckermann, DePfa managing board member in charge of treasury.

KfW, recently assigned a zero-risk weighting, tapped the Canadian dollar market which faces redemptions of about C$1.2bn this month and next.

## NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Export-Import Bank of Korea | 500 | (a)# | (a)R | Feb.2006 | 0.35R | (a)(WI 10yr) | Lehman/Salomon Brothers |
| CCCMT 1, S.96-2, Class A(b) | 500 | 5.625 | 99.762R | Mar.2001 | 0.25R | +35(5¼%-01) | Deutsche Morgan Grenfell |
| BankAmerica Corp(c)‡ | 200 | (c1) | 99.827R | Feb.2003 | 0.20R | - | Salomon Brothers Intl. |
| Banco ABN Amro(l) | 150 | 8.125# | 99.85R | Feb.1998 | 1.00R | +330(5%-98) | ABN Amro Hoare Govett |
| **D-MARKS** | | | | | | | |
| DePfa(p) | 1.5bn | (d) | (d)R | Feb.2001 | 0.25R | +40(5¼%-00) | Morgan Stanley Bank |
| Dapo International Finance‡ | 300 | (e) | 99.96 | Mar.2006 | 0.20 | - | DG Bank |
| **YEN** | | | | | | | |
| Sanwa Finance Aruba(f)★‡ | 10bn | (f1) | 100.00 | undated | 0.30 | - | Sanwa International |
| **STERLING** | | | | | | | |
| BAA(g,s)§ | 260 | 5.75# | 100.00 | Mar.2006 | 2.00 | - | UBS |
| Dresdner Finance(s) | 150 | 7.625 | 99.407R | Dec.2003 | 0.30R | +25(8%-03) | Dresdner KB/HSBC Markets |
| **BUILDERS** | | | | | | | |
| Asian Development Bank | 400 | 6.25 | 100.00R | Mar.2006 | 0.325R | +17(8%-06) | ABN Amro Hoare Govett |
| **FRENCH FRANCS** | | | | | | | |
| Ford Motor Credit Corp | 2bn | 6.75 | 99.06R | Mar.2006 | 0.425R | +40(7¼%-06) | C.Lyonnais/Merrill Lynch |
| **LUXEMBOURG FRANCS** | | | | | | | |
| KfW International Finance(l) | 2bn | 5.75 | 102.65 | May.2002 | 1.875 | - | Crédit Européen-BBL |
| **ITALIAN LIRE** | | | | | | | |
| Helaba Finance | 300bn | 8.75 | 100.69 | Mar.1999 | 1.375 | - | Bca MPS/IMI Lux/JP Morgan |
| DePfa Bank(l) | 150bn | 9.00 | 101.01 | Feb.1998 | 1.125 | - | Deutsche Morgan Grenfell |
| **CANADIAN DOLLARS** | | | | | | | |
| KfW International Finance(s) | 200 | 8.50 | 99.90R | Dec.2001 | 0.25R | +5(7½%-01) | Daiwa Europe |
| Bank of Nova Scotia | 125 | 8.625 | 99.54R | Mar.2001 | 0.275R | +25(7½%-01) | ScotiaMcLeod |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today at 77-79bp over. b) Citibank Credit Card Master Trust. Legal maturity: 7/3/03. c) Callable from Feb.01 at par. c1) 3-mth Libor +12½bp. d) Priced today. e) 3-mth Libor +⅛%. f) Callable from Feb.01 at par. f1) 6-mth Libor +80bp to Feb.01, then +140bp to Feb.06 and +190 thereafter. g) Conv price: 488.5p. Callable from 29/3/01 at par. l) Long 1st coupon. p) Oeffentliche Pfandbrief. s) Short 1st coupon.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Day's change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| Australia | | 10.000 | 02/06 | 112.6580 | +0.150 | 8.13 | 8.17 | 8.48 |
| Austria | | 6.500 | 11/05 | 98.2300 | +0.610 | 6.75 | 6.20 | 6.37 |
| Belgium | | 7.000 | 05/06 | 103.5600 | +0.510 | 6.51 | 6.36 | 6.69 |
| Canada * | | 8.750 | 12/05 | 111.7700 | +0.340 | 7.06 | 6.99 | 7.12 |
| Denmark | | 8.000 | 03/06 | 105.1200 | +0.580 | 7.26 | 7.11 | 7.25 |
| France | BTAN | 7.000 | 10/00 | 106.1250 | - | 5.47 | 5.37 | 5.90 |
| | OAT | 7.250 | 03/06 | 105.4000 | +0.100 | 6.50 | 6.38 | 6.65 |
| Germany Bund | | 6.000 | 01/06 | 99.6000 | +0.250 | 6.05 | 5.89 | 6.03 |
| Ireland | | 8.000 | 08/06 | 103.6300 | +0.350 | 7.45 | 7.34 | 7.44 |
| Italy | | 10.500 | 09/05 | 102.9700 | +0.420 | 10.01† | 9.95 | 10.63 |
| Japan | No 129 | 6.400 | 03/00 | 117.3350 | +0.090 | 1.85 | 1.81 | 1.83 |
| | No 174 | 4.600 | 09/04 | 111.4300 | +0.230 | 2.94 | 2.99 | 2.89 |
| Netherlands | | 6.000 | 01/06 | 99.3400 | +0.420 | 6.09 | 5.91 | 6.04 |
| Portugal | | 11.875 | 02/05 | 114.2600 | +0.450 | 9.45 | 9.40 | 9.81 |
| Spain | | 10.150 | 01/06 | 103.0100 | +1.610 | 9.65 | 9.54 | 9.71 |
| Sweden | | 6.000 | 02/05 | 83.1440 | +0.370 | 8.79 | 8.33 | 8.52 |
| UK Gilts | | 8.000 | 12/00 | 104-11 | +6/32 | 6.82 | 6.82 | 6.60 |
| | | 7.500 | 12/06 | 98-31 | +11/32 | 7.64 | 7.49 | 7.42 |
| | | 9.000 | 10/08 | 109-21 | +12/32 | 7.78 | 7.85 | 7.57 |
| US Treasury * | | 5.875 | 11/05 | 101-19 | +1/32 | 5.66 | 5.59 | 5.64 |
| | | 6.875 | 08/25 | 109-31 | -4/32 | 6.14 | 6.03 | 5.99 |
| ECU (French Govt) | | 7.500 | 04/05 | 103.6900 | +0.250 | 6.91 | 6.80 | 6.96 |

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

### US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| Prime rate | 8½ | One month | 5.26 | Two year | 4.92 |
| Broker loan rate | 7 | Two month | 5.09 | Three year | 5.02 |
| Fed.funds | 5$\frac{5}{16}$ | Three month | 4.97 | Five year | 5.28 |
| Fed.funds at intervention | - | Six month | 4.96 | 10-year | 5.65 |
| | | One year | 4.65 | 30-year | 6.17 |

### BOND FUTURES AND OPTIONS

**France**

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 122.26 | 122.00 | +0.10 | 122.34 | 121.94 | 171,909 | 141,728 |
| Jun | 122.66 | 122.28 | +0.02 | 122.66 | 122.24 | 5,943 | 17,141 |
| Sep | 121.44 | 121.06 | +0.02 | 121.44 | 121.20 | 23 | 2,286 |

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

| Strike Price | CALLS Mar | CALLS Jun | CALLS Sep | PUTS Mar | PUTS Jun | PUTS Sep |
|---|---|---|---|---|---|---|
| 120 | - | - | - | 0.13 | 0.74 | - |
| 121 | - | - | - | 0.29 | - | - |
| 122 | 0.66 | - | - | 0.64 | 1.40 | - |
| 123 | 0.27 | 1.23 | - | 1.23 | - | - |
| 124 | 0.10 | 0.84 | - | - | - | - |

Est. vol. total. Calls 15,762 Puts 15,393. Previous day's open int., Calls 196,014 Puts 191,307.

**Germany**

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 98.96 | 99.11 | +0.44 | 99.29 | 98.85 | 214367 | 236726 |
| Jun | 98.30 | 98.26 | +0.42 | 98.40 | 98.20 | 1544 | 15753 |

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

| Strike Price | CALLS Mar | CALLS Apr | CALLS May | CALLS Jun | PUTS Mar | PUTS Apr | PUTS May | PUTS Jun |
|---|---|---|---|---|---|---|---|---|
| 9900 | 0.56 | 0.48 | 0.70 | 0.90 | 0.45 | 1.22 | 1.44 | 1.64 |
| 9950 | 0.31 | 0.32 | 0.52 | 0.70 | 0.70 | 1.56 | 1.76 | 1.94 |
| 10000 | 0.15 | 0.20 | 0.37 | 0.53 | 1.04 | 1.94 | 2.11 | 2.27 |

Est. vol. total. Calls 28638 Puts 25634. Previous day's open int., Calls 283214 Puts 229747

**Italy**

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 112.10 | 112.02 | +0.30 | 112.32 | 111.77 | 44299 | 62490 |
| Jun | 111.70 | 111.54 | +0.30 | 111.70 | 111.60 | 244 | 4586 |

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

| Strike Price | CALLS Mar | CALLS Jun | PUTS Mar | PUTS Jun |
|---|---|---|---|---|
| 11200 | 0.83 | 2.01 | 0.81 | 2.47 |
| 11250 | 0.60 | 1.78 | 1.08 | 2.74 |
| 11300 | 0.41 | 1.57 | 1.39 | 3.03 |

Est. vol. total, Calls 5530 Puts 2470. Previous day's open int., Calls 85189 Puts 77106

**Spain**

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 95.93 | 96.03 | +0.38 | 96.32 | 95.75 | 79,907 | 52,842 |
| Jun | - | 95.67 | - | - | - | 250 | 253 |

**UK**

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 109-08 | 109-09 | +0-12 | 109-16 | 109-04 | 69952 | 139047 |
| Jun | 108-23 | 108-17 | +0-11 | 108-23 | 108-20 | 571 | 1475 |

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

| Strike Price | CALLS Mar | CALLS Apr | CALLS May | CALLS Jun | PUTS Mar | PUTS Apr | PUTS May | PUTS Jun |
|---|---|---|---|---|---|---|---|---|
| 109 | 0-57 | 0-63 | 1-23 | 1-42 | 0-39 | 1-29 | 1-53 | 2-08 |
| 110 | 0-27 | 0-38 | 0-61 | 1-14 | 1-09 | 2-04 | 2-27 | 2-44 |
| 111 | 0-10 | 0-22 | 0-41 | 0-56 | 1-56 | 2-52 | 3-07 | 3-22 |

Est. vol. total. Calls 4362 Puts 1040. Previous day's open int., Calls 40586 Puts 30745

**Ecu**

■ ECU BOND FUTURES (MATIF) ECU100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 91.00 | 90.96 | +0.24 | 91.10 | 90.90 | 4,884 | 8,083 |

**US**

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 119-27 | 119-31 | +0-07 | 120-04 | 119-25 | 245,773 | 326,798 |
| Jun | 119-10 | 119-15 | +0-07 | 119-19 | 119-09 | 2,810 | 44,321 |
| Sep | 119-00 | 118-27 | +0-05 | 119-00 | 118-26 | 110 | 5,902 |

**Japan**

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Close | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 120.18 | | | 120.24 | 120.12 | 2118 | 0 |
| Jun | 118.68 | | | 118.74 | 118.62 | 735 | 0 |

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

### FT-ACTUARIES FIXED INTEREST INDICES

| Price Indices UK Gilts | Wed Feb 7 | Day's change % | Tue Feb 6 | Accrued interest | xd adj. ytd | | Low coupon yield Feb 7 | Low Feb 6 | Low Yr. ago | Medium coupon yield Feb 7 | Medium Feb 6 | Medium Yr. ago | High coupon yield Feb 7 | High Feb 6 | High Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Up to 5 years (22) | 123.56 | +0.13 | 123.40 | 2.64 | 0.45 | 5 yrs | 7.00 | 7.05 | 8.46 | 7.03 | 7.09 | 8.49 | 7.10 | 7.18 | 8.67 |
| 2 5-15 years (21) | 150.06 | +0.34 | 149.55 | 3.12 | 0.00 | 15 yrs | 7.84 | 7.89 | 8.99 | 7.88 | 7.93 | 8.50 | 7.98 | 8.03 | 8.73 |
| 3 Over 15 years (8) | 164.80 | +0.44 | 164.08 | 2.82 | 1.02 | 20 yrs | 7.96 | 7.99 | 8.35 | 7.97 | 8.02 | 8.50 | 8.06 | 8.11 | 8.80 |
| 4 Irredeemables (6) | 168.29 | +0.45 | 167.44 | 2.78 | 0.00 | Irred.† | 8.08 | 8.09 | 8.42 | | | | | | |
| 5 All stocks (57) | 144.72 | +0.29 | 144.30 | 2.95 | 0.34 | | | | | | | | | | |

| Index-linked | Wed Feb 7 | Day's change % | Tue Feb 6 | Accrued interest | xd adj. ytd | | Inflation 5% Feb 7 | Inflation 5% Feb 6 | Inflation 5% Yr. ago | Inflation 10% Feb 7 | Inflation 10% Feb 6 | Inflation 10% Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 Up to 5 years (1) | 198.13 | +0.09 | 197.94 | 2.52 | 0.00 | Up to 5 yrs | 2.57 | 2.61 | 5.72 | 1.36 | 1.39 | 2.47 |
| 7 Over 5 years (11) | 187.72 | +0.40 | 187.28 | 1.05 | 0.31 | Over 5 yrs | 3.63 | 3.66 | 3.87 | 3.44 | 3.47 | 3.68 |
| 8 All stocks (12) | 187.83 | +0.39 | 187.39 | 1.08 | 0.30 | | | | | | | |

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

### FT FIXED INTEREST INDICES

| | Feb 7 | Feb 6 | Feb 5 | Feb 2 | Feb 1 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 94.64 | 94.47 | 94.19 | 94.58 | 95.29 | 91.80 | 98.34 | 90.22 |
| Fixed Interest | 112.68 | 112.61 | 113.43 | 113.88 | 113.85 | 110.45 | 115.23 | 108.77 |

* for 1995/96. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

### GILT EDGED ACTIVITY INDICES

| | Feb 6 | Feb 5 | Feb 2 | Feb 1 | Jan 31 |
|---|---|---|---|---|---|
| Gilt Edged bargains | 96.7 | 118.5 | 91.5 | 96.2 | 138.4 |
| 5-day average | 105.8 | 110.4 | 106.0 | 107.2 | 108.4 |

## UK GILTS PRICES

[illegible]

## FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on February 7

| | Issued | Bid | Offer | Chg. | Yield |
|---|---|---|---|---|---|
| **U.S. DOLLAR STRAIGHTS** | | | | | |
| Sweden 8 97 | 2500 | 106⅞ | 107 | +⅛ | 3.83 |
| Abbey Natl Treasury 8 03 £ | 1000 | 100½ | 100⅝ | +⅝ | 7.90 |
| [illegible] | | | | | |

Other Fixed Interest

[illegible]



هكذا من الأصل

# SINGAPORE

## Journey with no ending

**The government may be relieved that the island state has not yet been classified as a developed country, writes Peter Montagnon**

Like most embarrassing moments, it had its serious as well as its funny side.

In his new year's message last month Mr Goh Chok Tong, the prime minister, told Singaporeans that the Organisation for Economic Co-operation and Development had formally classified their nation as a developed country. After a couple of weeks of excited chatter in the media, it turned out be was not quite right.

There were red faces all round as commentators discovered the OECD had merely put Singapore in the category of advanced developing nations which are no longer eligible for aid. Singapore had not yet quite arrived at the end of the development road after all. But that does raise an important question: if Singapore is not developed, then what more does it have to do? And how easy will the challenge be?

By normal standards there ought to be no debate at all. With a per capita gross domestic product of $24,000, Singapore enjoys a living standard well ahead of Britain and roughly on a par with that of France.

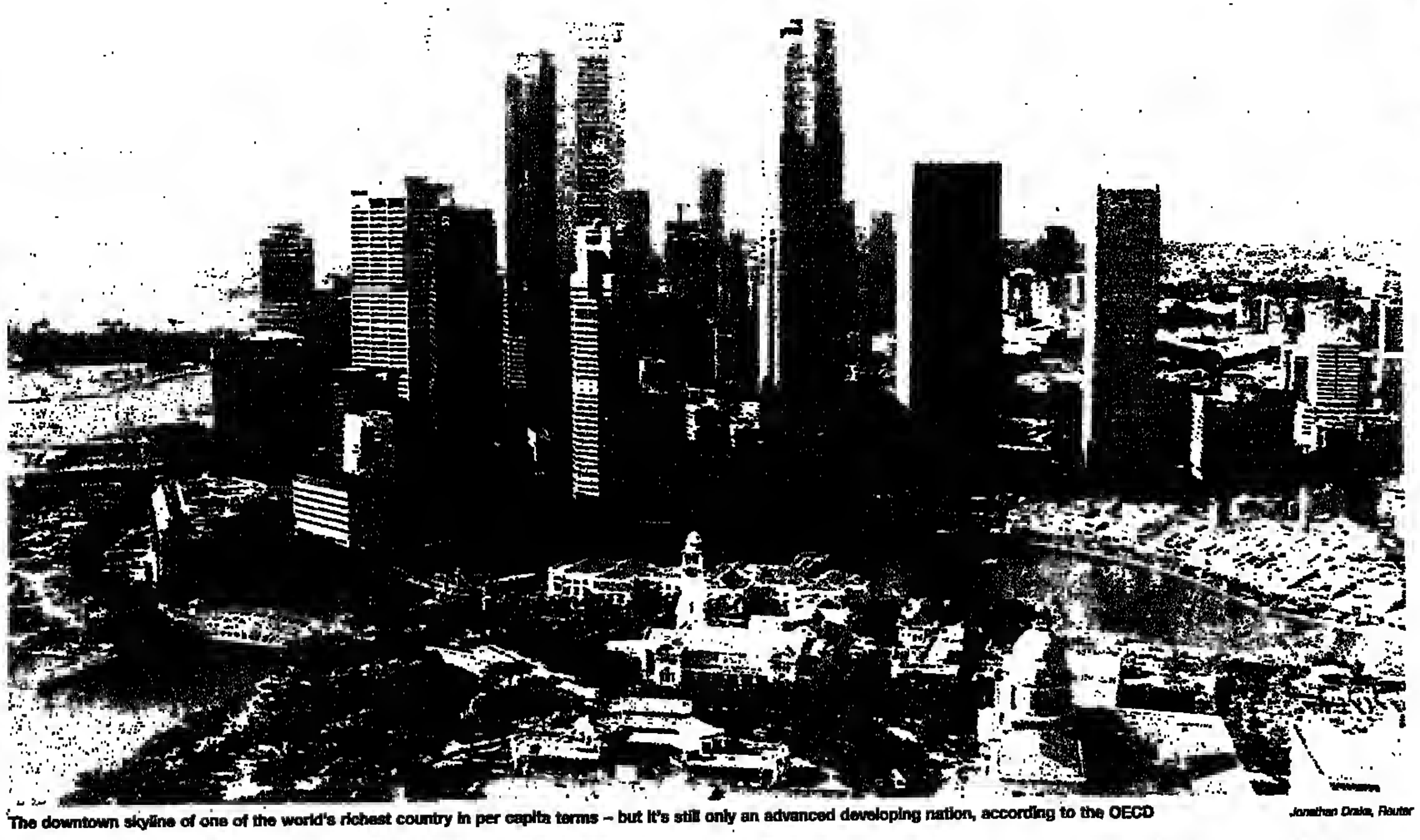
With its mixture of market economics and stakeholder approach to social welfare, it has attracted the admiring attention of the occasional western politician, including Mr Tony Blair, the UK Labour party leader.

In the poorer countries of Asia, such as China, Indonesia and Vietnam, which are only starting out on the development road, Singapore is often seen as a model. People in those countries mind less than western critics about Singapore's limited democracy, but they find real appeal in the material freedom it offers its citizens, in its non-confrontational predictability and social order, in the rule of law and, a true rarity in Asia, the almost total lack of corruption.

But while they are quick to reel off these achievements, Singapore's leaders are also a little uneasy about too much flattery. The ruling People's Action party considers Singapore vulnerable and its achievements fragile. It is a deeply ingrown belief, going right back to the time that Singapore was expelled from the Malaysian Federation in 1965.

Singapore then had to survive alongside two large neighbours, Indonesia and Malaysia, hostile to the overseas Chinese who make up the bulk of its population. It had to develop the national economy without the benefit of domestic markets.

The PAP still uses its sense that the country has its back up against the wall to help justify its tight control over most aspects of Singaporean life. It cannot lightly abandon this belief, even in the face of staggering economic achievement.



The downtown skyline of one of the world's richest country in per capita terms – but it's still only an advanced developing nation, according to the OECD — Jonathan Drake, Reuter

According to Mr Lee Hsien Loong, the deputy prime minister and son of Mr Lee Kuan Yew, Singapore's elder statesman and founding father, "income is ephemeral. It's a satisfying thing to have, but it can come and go. It's the foundations for that income that you must ensure. We're not sure that we have those foundations as deep as they ought to be.

"If you look at the structure of our economy in terms of the breadth and depth of expertise, organisation, multinational firms' spread of subsidiaries overseas, or domestic indigenous technological capability, we have a long way to go."

Only 3 per cent of the country's workers have university degrees, be adds. About 22 per cent of new entrants to the workforce are graduates, but it will take many years before that feeds through into the workforce as a whole.

Implicit in this reply is an awareness that Singapore's wealth is very new and that the past 30 years have been quite literally a story of rags to riches. Singaporeans need not have advanced far into middle age to remember the days when their country was dirty and disease-ridden, with many of its roads unpaved and many of its people living in insanitary conditions in makeshift housing.

Thus the government wants to make its people more civilised before it lays claim to pre-side over a developed society. "Graciousness" is the latest buzzword, even if the message sometimes appears to be delivered in an ungracious and hectoring tone. Having congratulated his countrymen for their economic success at the new year, Mr Goh then went on to lambast them for discourtesy, littering, vandalising library books and pilfering orchids from the Botanic Gardens.

There are other, more practical reasons why Singapore is reluctant to claim the status of developed country. Were it to do so, it would be unable to make use of residual trade preferences still available on some exports to the European Union until 1998.

It would have to implement more quickly its Uruguay Round obligations on intellectual property.

It might also come under more pressure to launch a development aid policy, internationalise its currency and open up its domestic financial market to foreign institutions.

Singapore has been reluctant to open up its tiny domestic financial market on the grounds that it fears loss of control. It argues that it needs a core group of strong local banks capable of rallying round in times of crisis, such as during last year's Barings debacle. Competition in domestic banking must therefore be limited. Similarly, it is reluctant to allow foreign brokers free access to its stock market.

Some US securities argue that these restrictions may make it harder to attract business away from Hong Kong after the British colony reverts to China in 1997. But this degree of protection is hardly likely seriously to inhibit Singapore's broader economic and financial development.

Singapore's financial services industry has survived last year's Barings crisis remarkably unscathed. Simex, the futures exchange, has been able to attract new members. Offshore assets of its international banks rose to US$471bn in the first 10 months of last year from US$416bn at the end of 1994. Singapore still ranks among the world's top four markets in foreign exchange.

To add to its range, it is now seeking, with some success, to attract more international

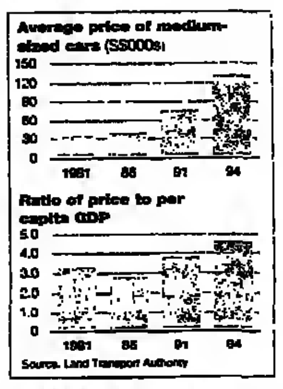
Continued on next page

### IN THIS SURVEY



Goh Chok Teng, the prime minister








**Production Editor:** Gabriel Bowman

■ **The economy:** by Peter Montagnon

# Savings lay groundwork for growth

## Expansion rates typical of a "tiger" economy are being maintained – for the time being

After two years of double-digit growth in 1993 and 1994, few economists believed the same thing would happen again in 1995. But thanks largely to an unexpected boost from electronics, it almost did. Singapore's economy grew by 8.9 per cent last year, while inflation was beld to just 1.7 per cent, less than half its rate in 1994.

The results suggest that, unlike Hong Kong which bas begun to manifest signs of a structural slowdown in its rate of growth, Singapore can continue to maintain the bigh expansion rates characterised by a so-called "tiger" economy.

The growth rate is expected to slow somewhat tbis year. The economic slowdown in industrial countries will dampen growth of world trade, and Singapore's industry needs to adjust to higher costs in the wake of a rising exchange rate. But economists at Deutsche Morgan Grenfell still expect it to reach around 8 per cent. The government itself believes Singapore can manage an average 7 per cent growtb rate between now and the end of the decade.

Still, without the contribution from alectronics, last year would have looked mnch less satisfactory. A slump in the growth rate of exports in the second quarter to 5.8 per cent from 23.1 per cent in the first partly reflected distortions caused by the introduction of a 3 per cent goods and services tax in March 1994. But it led many economists to downgrade their expectations for economic growth in 1995.

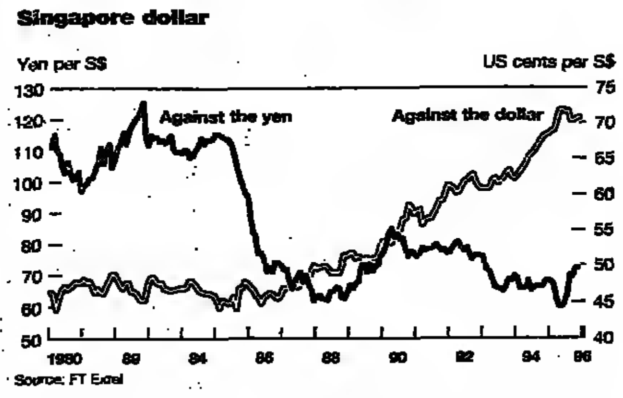
Pessimism gave way again to optimism only after an unexpectad surge in electronics exports as the market geared up for the high-profile launcb of Microsoft's Windows 95 in August. That created heavy demand for personal computers and items such as disc drives in which Singapore specialises. Electronics sales grew by 24 per cent between April and November, putting the overall economic growth rate on a strongly upward track.

**Manufacturing investment commitments**

| Year | S$bn |
|---|---|
| 1990 | 2.49 |
| 1991 | 2.93 |
| 1992 | 3.48 |
| 1993 | 3.92 |
| 1994 | 5.76 |
| 1995 | 6.81* |

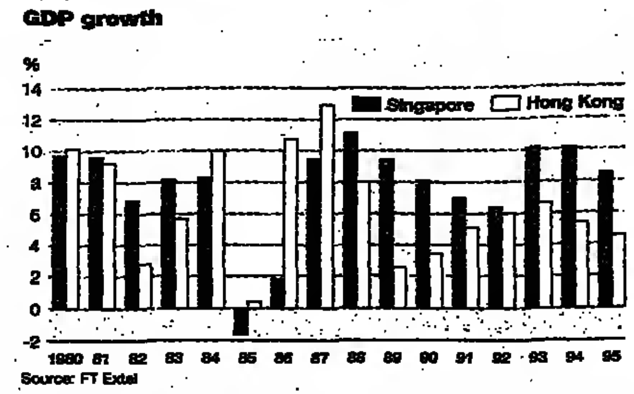
* = Estimate
Source: Economic Development Board

**Singapore dollar**




Source: FT Extel

**GDP growth**




Source: FT Extel

Elsewhere, though, performance remains patchy. Construction has been boosted by government programmes for refurbishing public sector housing. But other traditional areas of the economy, such as shiprepairing and oil refining, are flat. Consumer demand is also weak, and the retail sector is in the doldrums as a result. But this has its flipside in the form of an extraordinarily high savings rate.

Mr Manu Bhaskaran of Crosby Securities estimates that Singapore's savings rate last year was some 47 to 48 per cent of GDP, indicating that Singaporeans are setting aside far more than tbe amounts prescribed under Central Provident Fund rules. "Having reached a certain income level and quality of life, many Singaporeans are cboosing to improve their bousing," be says. That, together with the need to accumulate resources to meet the high cost of buying a car, helps to explain why the savings rate is high.

The high savings rate more than suffices to finance an investment rate of some 35 per cent. Most economists agree that this, in turn, is laying the groundwork for future growth, especially if it leads to an increase in productivity. But tbe large surplus of savings bas led to a higb current account balance of payments surplus of nearly S$16bn in the first three quarters of last year (compared to S$12bn in the same period of 1994) which has helped put upward pressure on the exchange rate.

Recycling the surplus is one of the main challenges for the economy in the medium term, says Mr Ng Bok Eng, regional economist at Deutsche Morgan Grenfell. While the governmant itself manages a large overseas investment portfolio and is encouraging private sector companies to invest in the region, other economists say there is also the risk that the Singapore dollar could attract large flows of flight capital in tbe event of political uncertainty elsewhere in the region.

But the rate of currency appreciation slowed last year, and Singapore has been able to cope with a higher exchange rate. Though manufacturing still accounts for some 25 per cent of economic output, lower-tech activities have been moved offshore, leaving only sophisticated high value-added activities at home. "If the Singapore dollar really was such a negative factor, why are foreigners continuing to invest in Singapore?" asks Mr Ng.

Nonetheless, the relatively unexciting performance of other sectors suggests that last year's boom in electronics masks a decline in competitiveness as a result of higher costs. That raises the question of what would bappen if there were a downturn in the electronics sector.

Some economists, including Mr Paul Schymyck of CIBC CEF, say Singapore could cope because even the electronics sector is well diversified. "If something happens to disc drives, then other sectors can rise," he says.

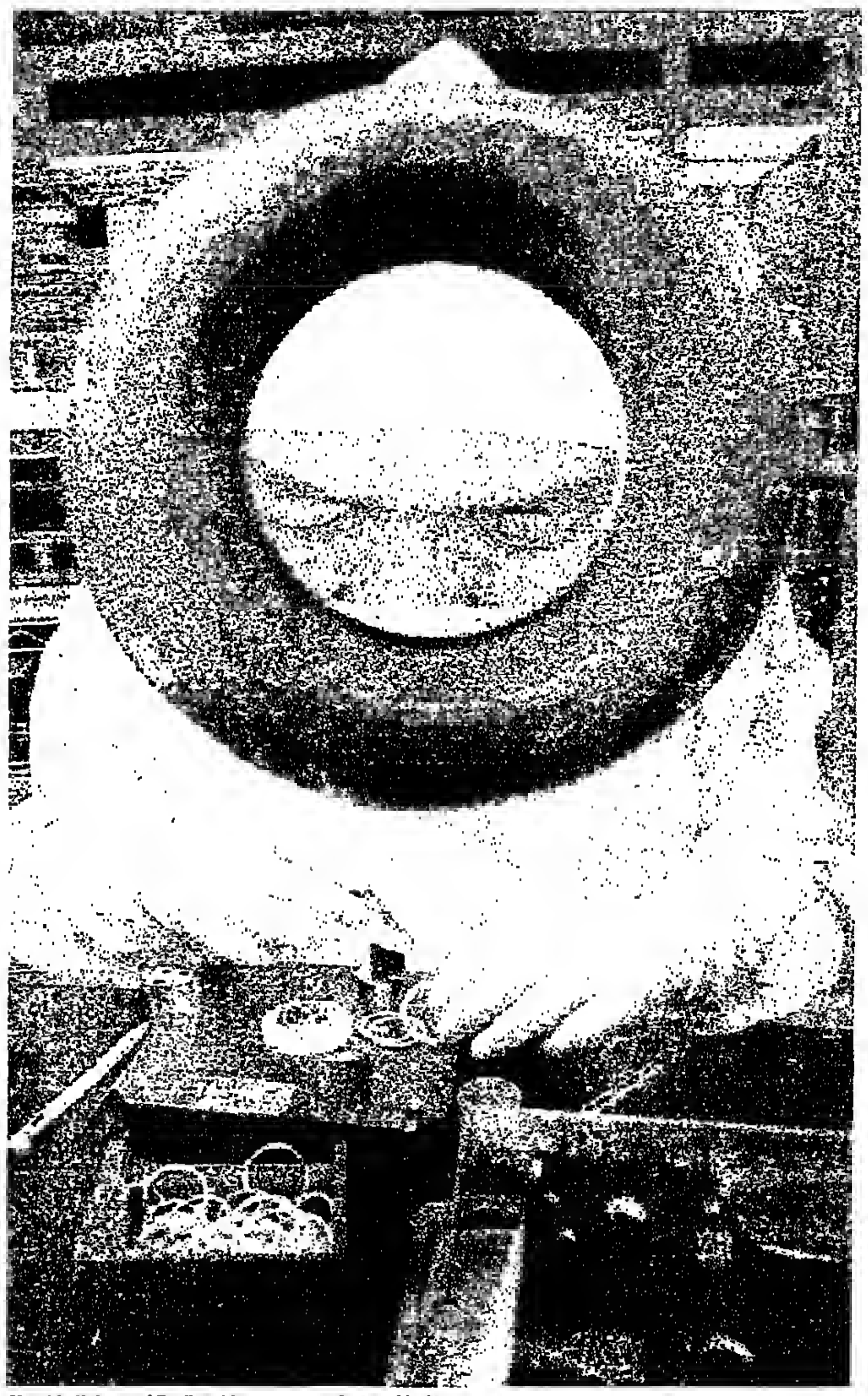
Singapore is planning to broaden its range with a further specialisation in silicon wafers. That diversification will help but with the economy 85 per cent dependent on external demand, Singapore remains vulnerable to what happens in the outside world.

**KEY FACTS**

| | |
|---|---|
| Area | 641 sq km |
| Population | 3.0 million (1995 estimate) |
| Head of state | President Ong Teng Cheong |
| Currency | Singapore dollar (S$) |
| Average exchange rate | 1994 $1 = S$1.5275; 1995 $1 = S$1.4170 |
| | 1994 £1 = S$2.3394; 1995 £1 = S$2.2384 |

| ECONOMY | 1994 | 1995* |
|---|---|---|
| Total GDP (US$bn) | 68.8 | 81.6 |
| Real GDP growth (%) | 10.1 | 7.9 |
| GDP per capita ($) | 23,492 | 27,373 |
| Components of GDP (%) | | |
| Private consumption | 40.2 | |
| Total investment | 34.2 | n.a. |
| Government consumption | 8.5 | |
| Net exports | 18.9 | |
| Consumer prices (% change pa) | 3.1 | 2.2 |
| Manuf. prod. (% change pa) | 13.0 | 9.5 |
| Unemployment (% of lab force) | 2.2 | 2.3 |
| Total reserves (US$bn) | 58.2 | 68.8 |
| Money supply M2 growth (% pa) | 14.4 | 12.9 |
| Minimum lending rate (%, year end) | 5.9 | 6.3 |
| FT-A index (% change over year) | -8.0 | +5.9 |
| Total external debt (% of GDP) | 9.4 | 8.4 |
| External debt per head (US$) | 2,208 | 2,311 |
| Current account balance (US$bn) | 11.9 | 14.9 |
| Exports (US$bn) | 95.6 | 114.3 |
| Imports (US$bn) | 95.9 | 114.5 |
| Trade balance (US$bn) | -0.2 | -0.2 |
| Main trading partners (1995, % by value) | Exports | Imports |
| US | 19.0 | 17.0 |
| Malaysia | 15.1 | 15.4 |
| Japan | 6.9 | 21.6 |

* = All 1995 figures are EIU estimates except reserves (Sept).
Sources: Economist Intelligence Unit, Datastream, IMF



About half the world's disc drives are manufactured in Singapore Reuter

■ **Productivity:** by Peter Montagnon

# Both perspiration and inspiration

## The emphasis now is on upgrading workforce skills and adding value to output

By some yardsticks Singapore's extraordinary economic growth does not deserve to continue.

Studies of the composition of the country's growth over the quarter century to 1990, by the US economist Mr Alwyn Young, have suggested the country relied too heavily on ever-increasing inputs of labour and capital and too little on productivity growth.

Total factor productivity (TFP), the jargon expression for that part of economic growth which is not clearly accounted for by increased input of labour and capital, showed little change over the period and was small elsewhere in the region.

In what has become something of a *cause celebre*, this prompted another US economist, Mr Paul Krugman, to suggest in 1994 that the Asian miracle was based on "perspiration rather than inspiration."

The implication is that the growth rate will fall sharply once the perspiring stops and the supply of new labour and capital dries up. Singapore, he said, was particularly vulnerable because of its record on TFP.

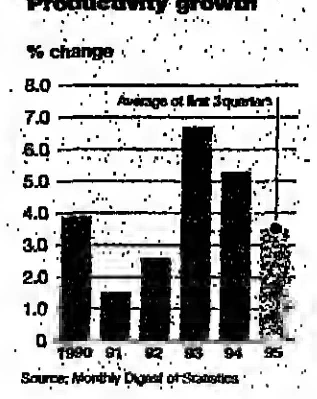
Singaporean economists are generally rather sceptical of the theory, noting that TFP, being a residual, is notoriously difficult to calculate. Moreover, productivity growth has long been a focus of economic policy.

According to Mr Lim Swee Say, managing director of the Economic Development Board, the country's average manufacturing growth in the past 10 years was 10.4 per cent. Of that, 40 per cent was accounted for by capital investment, 20 per cent by an increase in the labour force and 40 per cent reflected growing efficiency in the use of these inputs or TFP.

"We have been on the right track," Mr Lim says. "But in future we must continue to concentrate on productivity."

The government's assumption that the economy can grow by 7 per cent a year between now and the end of the decade assumes a 4 per cent annual increase in productivity. From April, two local bodies, the Institute of Standards and Industrial Research and the National Productivity Board, are to merge into a new body that will concentrate on upgrading the skills of the workforce and add value to its output.

**Productivity growth**




Source: Monthly Digest of Statistics

Revisions to national statistics in connection with the introduction of the goods and services tax in 1994 suggest that the contribution of productivity to growth may have been under-recorded in the past, but there is evidence which shows that growth may have been quite strong until recently.

Thus, after growing by only 3 per cent in 1992, manufacturing productivity growth jumped 12.2 per cent and 11.4 per cent respectively in 1993 and 1994.

Initial evidence suggests the rate of growth of productivity fell back in 1995, but for the longer term, economists are optimistic.

"What's happening is quite similar to the US," says Mr Paul Schymyck, chief regional economist of CIBC CEF. "There's a new faith in productivity after investment in computers and technical infrastructure."

■ **The 'stakeholder society':** by Peter Montagnon

# All for the community's benefit

## A look at how the country reconciles economic growth with social planning

If Hong Kong, with its freewheeling *laissez-faire* ways serves as an Asian model for the British Conservative party, then Singapore, which has managed high growth while still placing emphasis on social planning looks a natural alternative for Mr Tony Blair, the Labour leader. It was here last month that he launched the slogan "stakeholder economy".

Quite what this means in the British context is not entirely clear. In the City of London it suggests a culture of corporate governance which recognises that employees and customers as well as shareholders have a stake in an enterprise.

A company must be run in the interests of all stakeholders, so shareholders may occasionally have to sacrifice short-term benefit for the sake of this broader group.

The Singapore government, too, aims to operate in the interests of the community as a whole, although it claims a unique ability to define what those interests are. If this means some sacrifice of individual rights in the short term, then that is deemed acceptable as long as the broader community shares in the country's material success.

To help distribute the benefits and give people a sense of involvement in Singapore's future, the government aims to give individuals a stake in the economy.

But this has nothing to do with redistribution of wealth through welfare payments. Instead, Singaporeans are encouraged to acquire wealth in the form of capital.

"The biggest stake we give the people are the Housing and Development Board flats which they live in," says Mr Lee Hsien Loong, deputy prime minister. "There you're talking about S$100,000 very commonly – or S$50,000 to S$60,000 at least if you bought a flat 10 to 15 years ago. That's what you get in capital gains."

Almost 90 per cent of Singaporeans live in such accommodation which they can buy on a 99-year lease from the government, using savings accumulated in the Central Provident Fund.

The CPF is a compulsory scheme into which employees must contribute 20 per cent of their salaries – employers chip in a similar amount – and it is designed to provide pensions as well as cover medical costs.

The government also uses the CPF as a vehicle to enable individuals to buy shares in privatisation issues by the Singapore government.

Under the so-called top-up scheme, the government will add to deposits made by individuals in their CPF accounts to enable them to invest. This helped attract strong local interest in the privatisation of Singapore Telecom. The number of people owning shares grew dramatically – from only around 250,000 to between 1.3 and 1.5m, Mr Lee says.

While ownership of capital assets does give workers a stake in the economy, the stakeholder principle is less in evidence in the corporate sector.

Singapore does not go in for the German-style concept of worker participation on company boards, but managements are forced to treat employees with consideration because of the acute shortage of skilled labour.

Moreover, the state expects people to use savings built up in CPF accounts to provide for their old age. CPF members may withdraw funds at the age of 55, but they must leave a minimum amount in the scheme to cover their pension and medical requirements. That amount is scheduled to rise as the population ages – from S$40,000 at present to S$80,000 by the year 2003.

Singaporeans may thus have acquired a stake in the economy through their ownership of capital assets. But they must use this wealth to provide for themselves, and the government, with its strong paternalistic traditions, limits their freedom to dispose of it.

"Singaporeans are asset-rich, cash-poor," explains Mr Lai Hock-Meng, managing director of Deutsche Morgan Grenfell.

# Economic journey without ending

Continued from previous page

management business that will cement its role as a financial hub.

Similarly, regionalisation of its economy has become a central priority as Singapore seeks to secure its future industrial and commercial development. Singapore is now trying to make itself into more than just a regional centre for multinational companies.

Faced with the need to recycle a current account balance of payments surplus that reached over 17 per cent of gross nstional prodnct in 1994 and to adjust to ever-rising labour costs, it is also trying to help steer the activities of the multinationals to which it plays host to other parts of Asia. Thus, it has been setting up industrial parks in other countries, such as China, Vietnam and India, wbere markets are large and wages still low.

Already most lower-skilled manufacturing has moved to neighbouring Malaysia and Indonesia. Now Singapore hopes that multinational companies will bring in more sophisticated operations as well as research functions that will make Singapore more innovative and productive. "Increasingly, companies will want to undertake this in the Asia-Pacific region because they have to innovate in the market place," says Mr Lim Swee Say, managing director of the Economic Development Board.

There are doubts about whether Singapore is equipped to make the leap to this higher level of activity. It boasts no great entrepreneurs like Hong Kong's Mr Gordon Wu or Mr Li Ka-shing. Singaporeans have no great talent for invention.

Even Mr Lee Kuan Yew, now senior minister in the cabinet, admits that Singapore's industrialisation simply followed developments in management and technology elsewhere. "We didn't have to pioneer the trail: the trail was blazed. All we needed to do was to get on our bicycle and pedal faster behind the lorries," he said in a recent BBC interview.

Critics say that, though the government's pervasive paternalism has helped build the country's present prosperity, it has also stunted the imagination and creativity whicb wonld now be required to make it less dependent on foreign expertise and ideas.

That judgment seems harsh. For the time being, Singapore is not short of businessmen willing to take a het on its future. According to the EDB, new commitments of manufacturing investment rose to S$6.81bn last yesr from S$5.76bn in 1994 and only S$3.92bn in 1993. Most private sector economists happily accept government forecasts that Singapore can grow at an average rate of 7 per cent over the next five years.

> No great entrepreneurs, no great talent for invention

In sum, it is hard to argue that Singapore is not a developed country economically, albeit ooe which still has to come to terms with the speed of its rise to prosperity. By contrast, the question of what it needs to do to mature politically is altogether more controversial.

Westerners often feel uncomfortable with Singaporean politics, not least because of the governmeot's tendency to stifle opposition. Recent history contains a number of cases where opposition politicians hsve been prosecoted for violating civil laws or sued by PAP leaders for defamation.

PAP officials see notbing undemocratic in this, since sucb cases involve reliance on local laws thet apply equally to everybody. But the party's approacb is also one in which logically there is little room for dissent.

According to its philosophy, the requirements of national survival dictate a communitarian and collectivist approach to government which sometimes has to override the wishes of individuals. This is true not only as far as economic well-being is concerned, hut also to meet the priority of assuring social order in a multiracial community.

Thus the PAP argues that its approach is acceptable as long as it delivers material success. In effect, the government has a pact with the people that limits their right to criticise ministers personally or government institutions generally. In return, they are promised competent and squeaky-clean government. The overwhelming majority won by the PAP at regular elections gives it the moral autbority to rule in this way.

"As long as you are delivering and as long as [the people] have confideoce in you and as long as we're able to self-renew and produce an up-to-date generation of leaders wbo are capable and obviously on top of the job, then we can maintain it," says Mr Lee, the depnty prime minister.

Thus far, the pact has beld. It seems likely to do so again in elections, due some time over tbe next year, even tbougb some cracks are appearing.

Support for the PAP has been eroding at the polls since the mid-1980s. Voters have been complaining about the cost of living and the overbearing paternalism of a government whicb insists that it knows best even about petty things like the sale of chewing gum (whicb is banned).

"All we needed was to get on our bicycles and pedal faster" Glyn Genin

But the opposition parties, who currently hold four seats in Singapore's 81-member parliament, are in disarray. Their programmes are weak and they are riven by internal dissent. While the PAP may lose some more seats, not even the opposition expects to inflict a dafeat that would undermine the government's authority.

As Singaporeans become more affluent, better-educated and more independent, the going will get harder. Already the PAP is consulting more. "What we do has to be in accord with people's wishes. Singaporeans are very aware of wbat is going on in the world. If what we say does not accord with their own perception of reality, we lose credihitity," says Mr George Yeo, the information minister.

It helps, too, to retain a sense of work yet to be done. If the governmeot were to admit that Singapore was now indeed a developed economy, it would lose mucb of its *raison d'etre*. That is wby it must constantly looking for ways in which present achievements can be protected, built on and improved.

According to Mr Lim of the EDB: "The ultimate aim is then Singapore should be able to sustain GDP growtb for ever. Economic progress is a journey without ending."

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**Politics:** by Peter Montagnon

# Search for a convincing victory

## The ruling party is anxious about its support, though it seems set to win the next elections

For a brief moment every five years or so, Singapore comes to life politically as elections are held for the island republic's 81-seat parliament.

The short nine-day campaign marks just about the only time when opposition parties enjoy free and full access to the public, and the results are carefully scrutinised for signs of how much support still accrues to the People's Action party, which has ruled Singapore since self-government in 1959.

Such a moment looms over the next 12 months. Elections must be held by spring next year, and may come as early next month, some pundits claim. There were indications last month that the PAP was gearing up to announce a date when the party newspaper, Petir, published a five-point strategy on how to win the election. This included a recommendation that campaign workers should criticise other countries, such as France, Italy and New Zealand for their welfarism, to show Singapore was on the right track.

But the more important question is whether the PAP is still on track. The last general election was not a good one for the party. Though it won just over 60 per cent of votes cast, which would count as a landslide in a western democracy, it lost four seats to the opposition. Mr Goh Chok Tong, the prime minister, allowed that to be seen as indicating a weakening of confidence in his authority.

This time the party is being more careful not to make itself a hostage to fortune. Though the authoritarian style with which it governs in between elections means it requires a very strong mandate from the people, it is being careful to downplay the need to maintain the share of the vote at any particular level.

"Barring a complete rout, by which I mean the share going down into the low 50s, the PAP is now psychologically able to accept a further erosion," says Mr Walter Woon, a law professor at the National University and PAP MP.

There are also some grounds for arguing that the erosion may be limited. Mr Goh's personal standing with the electorate appears to have

> For nine days opposition parties enjoy free access to the public

improved since the last election, even if many Singaporeans still feel frustrated with the party. Also, there was a freak element to the last result because the opposition parties stood in only 40 seats. Since the PAP was thus assured of winning, this encouraged tactical voting by people who wanted to protest without actually seeing the party defeated.

The opposition may use this tactic again. If so, the result will not necessarily reflect the real balance of public opinion as many seats in which the PAP is strongest will simply remain uncontested. But the elections also look like coming at a bad time for the main opposition Singapore Democratic party (SDP), which has suffered a split in its leadership and is accused by the government of lacking coherent programmes.

That said, there are also signs that, behind the scenes, the PAP is concerned about its standing. Party veteran Mr Tony Tan was brought back into the cabinet last August as deputy prime minister in a clear effort to strengthen its appeal to voters. And opposition politicians say there is a groundswell of public dissatisfaction with the PAP.

Among the likely election issues are the high level of ministerial pay. Mr Goh's salary of S$1.5m (about £675,000) is a focus of resentment among lower-paid workers struggling to afford increasingly expensive housing and transport. There is also still some lingering opposition to the 3 per cent goods and services tax imposed in 1994.

"The lower class completely resent the tax," says Mr J.B. Jeyaretnam of the Workers' party, who became Singapore's first opposition MP in 1981. "They weren't paying income tax because they didn't qualify. Now the GST takes it out of them," adds Mr Jeyaretnam, who will stand for parliament again after being debarred in 1986 following a fraud case brought against his party.

Mr Chee Soon Juan, the new leader of the SDP, admits that there is little prospect of actually defeating the PAP for some time to come. But if the opposition can win more seats in parliament, its voice will be heard and there will be more debate. "Singaporeans want to

Goh Chok Tong: his salary may be an election issue — Ashley Ashwood

be reasoned with rather than to be told what should be subsidised and what should not," he says.

That could spell problems for the PAP because a critical mass of opposition MPs in parliament would force more open debate on policy and dilute its hold on power. But though both Mr Jeyaretnam and Mr Chee argue for a more open society, this is not necessarily the main aspiration of the poorer voters from whom they draw their support.

It is among affluent young middle-class Singaporeans that one hears the most complaints about the overbearing approach of government with its sometimes petty-sounding rules. But such people also shy away from the uncertainty that would follow from a defeat of the PAP.

The trouble that brews for the PAP in this quarter is different. Able, educated young people seem to have lost interest in politics. Even the prospect of high ministerial salaries comparable with those available in the private sector has not been sufficient to lure a high calibre new generation into government. This goes deeper than mere electoral appeal. Unless the PAP can find a way of bringing on a new generation of leaders, it will face difficulty in future. That is also why PAP leaders worry that capable members of Singapore's educated elite – still quite a small group – will be attracted to the opposition.

"That's very troublesome," says Mr Lee Hsien Loong, deputy prime minister. "I mean it's wrong. Why should we allow a good man to go into the opposition and have to expend his energies non-constructively?"

**Foreign policy:** by Peter Montagnon

# Proud state seeks safety in numbers

## Concerned with security, the island state is a great joiner of groups such as Asean

Ask people in the west about Singapore's image, and most will probably reply that it has a reputation for prickly assertiveness, all too ready to argue its corner over what it calls Asian values and often contemptuous of those of the west.

With its high-profile libel suits against foreign commentators and pointed refusal to countenance a stay of execution for Flor Contemplacion, the Filipina maid executed for murder last year, it seems to care little about making friends and influencing people.

Such stridency appears born partly out of pride in its own prosperity and partly out of a typically Asian resistance to anything that smacks of interference by others in its own internal affairs. But it is also a reflection of vulnerability. Singapore's leaders feel constantly impelled to remind their compatriots that theirs is a small country trying to make its way in a difficult and uncertain world. They cannot afford to relax.

This view also pervades Singapore's more formal diplomatic efforts. A concern with security is natural for a small open economy. In Singapore's case it is aggravated by the belief that the world has not yet gravitated into a new strategic balance since the end of the cold war.

This leaves the Pacific region beset with possible flashpoints, such as the sovereignty disputes over the Spratly Islands in the South China Sea, the tensions between China and Taiwan, and the unpredictability of North Korea in the face of a worsening food shortage.

Singapore can do little directly about these problems, but it must learn to live with them. Its approach is, first, to build good relations with its immediate neighbours, and, second, to try to build the seven-nation Association of Southeast Asian Nations (Asean), to which it belongs, into a force for prosperity and security in the broader Pacific region.

Seeking safety in numbers, it is a great joiner of groups and usually plays a pro-active role in organisations it joins. Thus, it is a prime mover behind next month's Europe-Asia summit in Bangkok; at the end of this year it will host the first ministerial meeting of the new World Trade Organisation; with its partners in Asean it is trying to open up Burma's economy and to build new bridges between India and east Asia.

By promoting a sense of economic interdependence, initially with its closest regional partners and then in an ever-broader sphere, it aims to engage the large powers in the Pacific – China, Japan and the US – and bestow on them an awareness of their stake in the region's future. That might help create a new multilateral balance which would prevent bilateral disputes getting out of hand.

In spite of last year's moments of regional tension, Singapore's diplomats have started 1996 in a positive mood. "Relations with immediate neighbours have never been better," says Mr Kishore Mahbubani, permanent secretary at the Ministry of Foreign Affairs, of Singapore's ties to Indonesia and Malaysia. "All three countries believe they can succeed in development and that they can do this by having open economies."

There is strong satisfaction at the degree of collaboration achieved at December's Asean summit in Bangkok where leaders (other members are Brunei, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) took new initiatives on trade liberalisation.

"The moment for Asean has come," Mr Mahbubani says. "It has succeeded far beyond our expectations. The robust optimism of everybody [in Bangkok] came as an eye-opener, even for us."

According to Professor Tommy Koh, ambassador at large and director of the country's Institute of Policy Studies, Singapore's main objectives are threefold: to maintain what he calls "this very rare moment when the region is at peace", to ensure that the momentum of economic growth is sustained and spread to other countries; and to build institutions able to "enmesh" the countries of the region better in the economic and security fields.

Thus, Asean is only part of the network. As a member of the Asia-Pacific Economic Co-operation forum, the US has an economic stake in the region which also forces it to remain involved in the security field.

China, seen as a threat by many in the Pacific, can be engaged economically through its membership of Apec and on security matters through its membership of the Asean Regional Forum which, like Apec, includes Japan and the US.

Singapore sees the EU-Asia summit, at which European leaders will confer with their counterparts from Asean countries, China, South Korea and Japan, as bridging a missing link in this process.

There may not be many concrete achievements, but the mere fact that it is the first such gathering ever makes it an "epochal" event, says Mr Mahbubani.

With further summits expected in Europe in 1988 and in South Korea in the year 2000, a process should get under way with scope for wide-ranging collaboration in a number of areas: infrastructure, research and development, the environment and industrial development.

It is hard not to miss in all this a need for a bulwark

> Such stridency reflects vulnerability. They cannot afford to relax

against an increasingly powerful China. That may also underly the efforts by other members of Asean to give the organisation new impetus.

Singaporean officials say they do not see China as an immediate security threat, but they argue that the region must come to terms with its emerging power.

By involving it in these regional groupings, they hope to help it relate better to the outside world in a non-confrontational way and to encourage it to play by the rules of the international community.

A group approach can help defuse disputes as Asean found when senior officials met with China last spring in Hangzhou near Shanghai to discuss the disputed Spratly Islands. But, says Mr Lee Hsien Loong, deputy prime minister, Asean cannot be a counterweight to China.

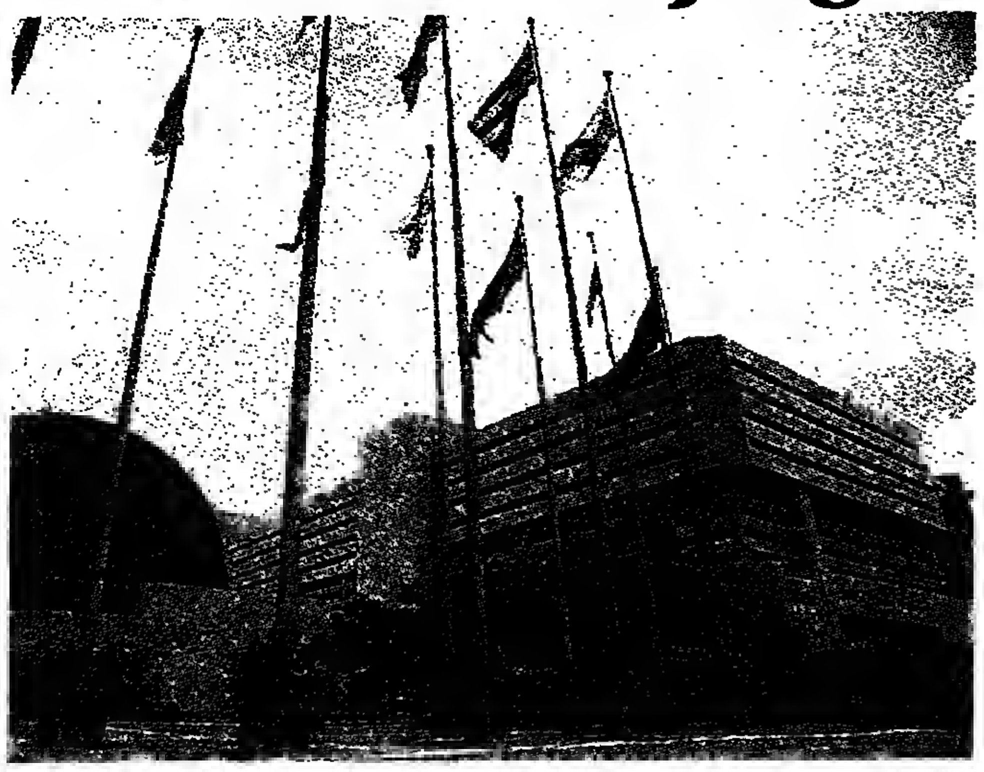
"One is a superpower with nuclear weapons. The other is a group of small to middling states just trying to have a bit more influence in the world. It's not our role to provide balance. The balance must be at a strategic level.

"As long as the Americans maintain a role in the region and the Seventh Fleet is around, I think there is a good balance," he adds. "That point remains fundamental, whatever the differences between Asian and western values."

■ **Privatisation:** by Philip Coggan

# Piggy banks start to jingle

### So far, the stock market's depth has scarcely improved – but that could be about to change



World Trade Centre, Singapore — Picture: Veronica Garbutt

Privatisation creates an interesting dilemma for Singapore. Although it is an enthusiastic supporter of capitalism, the island's government is well known for keeping close control on the economy.

With Singapore running a substantial current account surplus and with the government's finances healthy, it has no need to privatise companies to make money. And since most people would say that Singapore's public services are extremely efficient, there would seem to be little in the way of efficiency improvements to be gained from the privatisation process.

However, Mr Lee Hsien Loong, the deputy prime minister, says: "While we believe we have been operating efficiently by our own lights, when you privatise and subject to market pressure and competition, you always discover that there are so many places where you could have done better and generated more business and higher efficiency and lower costs."

A minority stake in Singapore Telecom was floated in 1993 and the Public Utilities Board, which will be renamed Singapore Power, is expected to be listed later this year. "What we are now doing," says Mr Lee, "is to privatise the services which have remained non-corporatised as statutory boards: Singapore Telecom, eventually the Public Utilities Board, the port, and maybe one or two others are conceivable."

Apart from improving the operation of the companies concerned, the government had a further ambition for the privatisation process: to give Singaporeans a stake in their economy. "There are people who have never owned shares in their lives and you just want them to have a little bit in their piggy bank," says Mr Lee. However, the targeting of the issue has made it difficult for the government to achieve another of its long-term aims: improving the depth of the stock market.

Much of the Singapore Telecom issue was placed in the bands of local investors, who were given incentives in the form of loyalty issues of bonus shares to hang on to their holdings. Since Singapore Telecom floated at a high price-earnings multiple by international standards, the result is that only 2 per cent of the company is owned by international investors. Liquidity in the issue is not that great.

> The company's plans for expansion have focused on the overseas market

However, that may change. The government, which still owns nearly 90 per cent of the company, has said that it may issue further tranches at a later date. That raises the possibility that the stock, which is large in market capitalisation terms, could be included in the Morgan Stanley Capital Index, making it likely that more international fund managers would want to hold it.

Singapore Telecom has an effective monopoly on the island (competition will be allowed in the cellular market in 1997 but the traditional business is safe until the next decade). Inevitably, therefore, the company's plans for expansion have focused on the overseas market.

Mr Lee Hsien Yang, Singapore Telecom's president and chief executive, says the company intends to invest internationally, particularly in the region. But as the rate of liberalisation is faster in Europe, it has also seized the opportunity, as part of a consortium, of taking a substantial stake in Belgacom, the Belgian telephone group.

Singapore's links with China mean that some people hope that Singapore Telecom could be a way of playing the China story but Mr Lee Hsien Yang says that "China is an exciting opportunity but the role of the foreign investor is constrained.

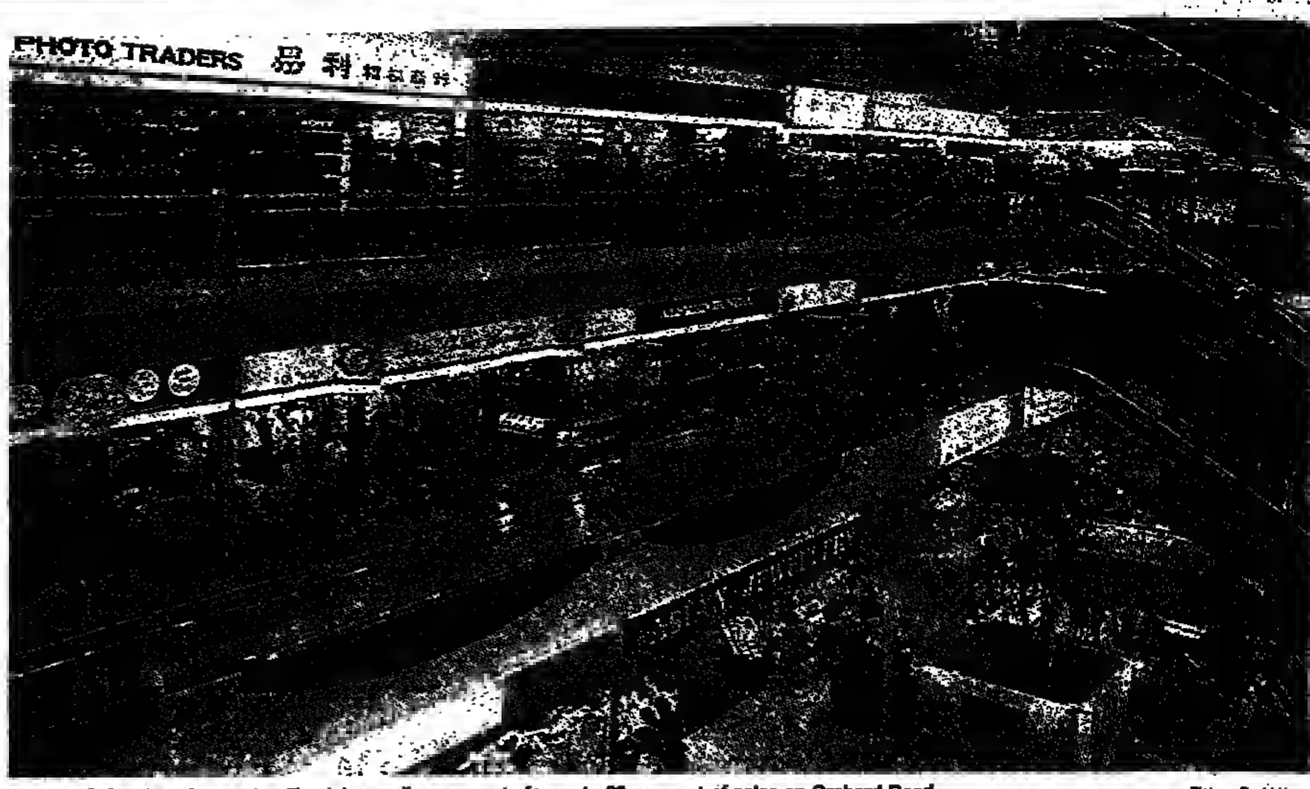
"The projects which are given out are in smaller pieces."

It is not clear whether the government will change its flotation approach for the issue of Singapore Power. The deputy prime minister admits: "Singapore Telecom was a learning exercise." But it seems likely that, once again, the issue will be targeted at private investors, who will be able to use money from the Central Provident Fund, Singapore's compulsory savings scheme, to buy shares.

Mr Lee says: "Singapore Power is not a straightforward exercise because you've got to restructure. We've already divided (the company) into several subsidiaries but we're not planning to float them separately. Eventually, in five to 10 years' time, we may well have two (power) companies operating."

Privatisation in Singapore has been a quite different process from that in the UK. The government has retained majority stakes and there is no chance of the takeover spree that characterised Britain's regional electricity sector last year.

But in a small country where the government is eager to foster a sense of social cohesion, privatisation is a useful way of tying citizens into the capitalist system and giving them a day-by-day reckoning of how the country's wealth is growing.



Orchard Point shopping centre: Tourist spending accounts for up to 80 per cent of sales on Orchard Road — Picture: David Hayes

■ **Retailing:** by Edward Luce

# Hard times on the boulevard

### Department stores are suffering, but niche chains and suburban centres are doing well

Singapore's days of indulging in a spate of seemingly endless shopping binges appear to be over. Once known as the "emporium of the east", the island state's retail sector is getting used to harder times as most leading department stores face a third consecutive year of losses.

The combination of a strong Singaporean dollar, which has appreciated by over 20 per cent against the US dollar since 1992, and fierce competition from regional capitals, such as Jakarta and Kuala Lumpur, have put an end to the era of double-digit annual sales growth.

With one or two exceptions, most analysts expect Singapore's upmarket stores to remain in the doldrums for some time to come. "The situation is quite depressing," says Ms Eunice Lee, a broker at Barings Securities in Singapore. "A coincidence of factors, including oversupply, flat personal consumption expenditure and the strong currency suggest that it will not improve until 1998 at the earliest."

The scores of vast department stores and plush boutiques which dominate Orchard Road – the city's famed shopping boulevard which used to attract high spending foreign tourists in their droves – are expected to fare worse in 1996.

Earlier this year Galeries Lafayette, the French retailer, announced it was pulling out of Singapore altogether after three frustrating years of losses. Last year Lane Crawford, the Hong Kong department chain, downgraded its Orchard Road site from five floors to two floors. Analysts say that it is only a matter of time before one of the big Japanese chains, such as Isetan, Takashimaya or Seiyu, retreat in similar fashion.

"1996 will probably be the year of the shake-out," says Mr Bernhard Eschweiler, an economist at J.P. Morgan. "The fact that there is oversupply of space and a lack of demand among consumers means that there has got to be a market clearing before the retail sector can be restored to health."

Another barrier inhibiting recovery is declining tourist expenditure. At 7.1m arrivals, most analysts blame lower tourist growth on the strong dollar and the rise of air-conditioned shopping malls in neighbouring holiday destinations. Since 1993 tourist spending per head has dropped by 30 per cent to an average of S$551 while the average visit is stuck at 3.4 days per person.

Attempts to woo cash-rich Japanese back to Singapore with government-sponsored summer sales have so far made little impression. In an effort to combat the downturn in the retail and hotel sectors the government will later this year unveil details of a new publicity drive to attract tourists. The campaign is entitled: "New Asia-Singapore. So easy to enjoy, so hard to forget." This replaces the long-running "Surprising Singapore" campaign, which had apparently ceased to startle.

Industry specialists, however, doubt the new tourist logo will be enough to tip the scales. Tourist spending accounts for up to 80 per cent of sales on Orchard Road but its overall share of retail spending is more like 25 per cent. A more serious problem is that Singaporeans are beginning to hunt for bargains elsewhere.

"Singaporeans are increasingly spending money abroad and looking for more competitive prices," says Ms Corrine Yap, a specialist at Richard Ellis, the British property group. "They are also devoting more of their expenditure to things like property mortgages and cars."

Rising property prices and the astronomic cost of buying a vehicle in Singapore – the cheapest cars sell for around S$80,000 – have eaten into disposable incomes while the growth of holiday travel has boosted the attraction of shopping across the straits in Malaysia.

Added to this, the government's decision to levy a 3 per cent sales tax on goods two years ago has scarcely had a beneficial effect on retailers. A study by J.P. Morgan shows that for every 1 per cent rise in gross domestic revenue collected from sales taxes, personal consumption expenditure declines by 1.5 per cent. The regression shows that a corresponding 1 per cent fall in income tax raises personal spending by only 0.3 per cent of GDP.

**Retail sales index* [1991= 100]**

| Year-end | |
|---|---|
| End-1993 | 106.4 |
| End-1994 | 107.8 |
| End-Oct 1995 | 109.0 |

*At constant prices, excluding motor vehicles
Source: Monthly Digest of Statistics

Another hitch, in what is a long list of problems conspiring to depress retail margins, is the island state's labour shortage. Growth in wage rates now regularly surpass the annual inflation rate. At 7.1 per cent last year, average wages grew at twice the rate of inflation. Retail outlets are therefore faced with the twin problem of rising labour costs and difficulty in finding trained staff. The high demand for labour also feeds into a high turnover of employees.

"Whichever way you look at it, Singapore's retail sector is going through a very difficult period," says Mr Eschweiler. "On the positive side, retail prices are falling which is good for consumers. The combination of lower consumer prices and higher wage costs is, of course, bad news for the stores."

However, the bad news in the retail sector has not been evenly distributed. Sales at the new suburban shopping centres in Tampines and Jurong East, as well as in the newly-opened shopping malls in public housing centres around the city, have been steadily rising. While this growth has not been enough to offset the overall net retrenchment in Singapore, specialists say that the market is becoming increasingly segmented.

Likewise, "niche" chains, such as Giordano, the Hong Kong clothes boutique shops, and Guess, the fashion chain, have continued to do well amid the rising gloom. Analysts put this down to the increasing sophistication of the Singaporean shopper and the rising spending power of teenagers.

"A lot of specialist chains, such as Warner Bros and Marina Rinaldi, are actually setting up in Singapore," says Ms Yap. "Consumers appear to be turning away from the undifferentiated products offered at department stores and going for brand names and fashionable labels. The evidence is difficult to miss: younger Singaporeans are much more fashion-conscious than their elders."



■ **Traffic problems:** by Peter Montagnon

# Electronic pricing ahead

### The government has recently unveiled an integrated transport policy

It takes less than an hour to drive from one end of the country to the other, but Singaporeans certainly like to use their cars. At 18,600km a year, the average local driver notches up slightly more than his US counterpart and roughly half as much again as a Japanese driver.

Despite the high cost of purchase – a typical medium-sized car costs nearly S$130,000 in 1994, according to government figures – Singapore's love affair with the car is growing as its citizens become more affluent. So it is probably no coincidence that motoring has become a hot political issue. At one level the independence implicit in car ownership by Singapore's newly rich professional classes represents the triumph of individualism over the philosophy of paternalism and collective responsibility on which the country was built.

At another, more practical level a coherent approach to transport is perceived by the government as essential so as to safeguard future economic growth and avoid the pollution and bottlenecks which have brought other Asian cities, such as Manila and Bangkok, to a grinding halt. In that sense it belongs to the tradition of careful forward planning and good government on which the ruling People's Action party seeks to base its appeal.

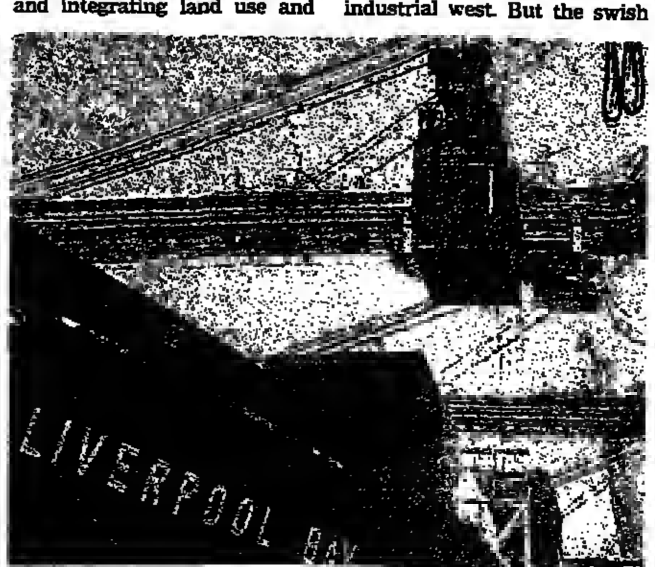
The result has been an innovative integrated transport policy unveiled in January in a white paper by the Land Transport Authority (LTA), a body formed last year by the merger of the mass transit, road, public works, vehicle registry and land authorities.

At a cost of some S$20bn over the next 10 to 15 years, the policy aims to build what it calls "a world class" transport system. The objective is to provide for a gradual but limited increase in the ownership of cars, while keeping traffic flowing and vastly increasing the availability, choice and quality of public transport.

"We cannot manage demand for cars without providing a good public transport alternative for those affected," says Mr Mah Bow Tan, communications minister. "We cannot improve public transport without managing usage of roads and integrating land use and transport planning."

The white paper, he says, will be a means of providing "a kind of social contract among the government, the people, and the transport service providers on the kind of land transport system we want". The ideal established in the white paper is to emulate the Swiss city of Zurich. It boasts one of the best integrated public transport systems in the world with 75 per cent of downtown journeys accounted for public transport. That compares with only 51 per cent in Singapore.

Though Singapore's existing transport system is a great advance on that of other regional centres, it still has glaring deficiencies. A new 16km mass transit line, opened this month, has sharply reduced travelling times from the north of the island to the industrial west. But the swish mass transit system with its granite-paved halls and air-conditioned underground platforms still has only limited reach in outlying areas.




The policy aims to build what it calls 'a world class' transport system

Buses are generally frequent but often slow and overcrowded. Taxi fares are about half those in New York, but long queues form at peak periods and during shift changes.

Among the main features of the white paper are:

● Policies to develop the road network and make usage more efficient. The government plans to spend S$1.1bn on another 225 lane km over the next five years and is considering a S$4.8bn system of underground roads which would speed traffic flows in the city centre. It is to introduce electronic road pricing next year to raise the cost of driving in the most congested areas, and plans to maximise the use of technology to eliminate bottlenecks, for example by automatically co-ordinating traffic light changes.

All these measures should enable the road system to accommodate more cars. The ratio of car ownership to population is expected to rise to 1:7 by 2010 compared with 1:10 now.

● Improving public transport. The white paper allows for the construction of an additional 56km of mass transit railway to serve heavy traffic corridors. Light rail systems, such as trams, will be introduced as feeders to the system in suburban areas as well as in the city centre. Measures are to be taken to increase the quality of bus services, for example by giving them greater road priority – at some intersections "intelligent" traffic lights will

Continued on facing page

**International Monetary Exchange:** by Philip Coggan

# Barings crisis tests market

## An advisory panel has put forward plans for the way forward once the dust has settled

A year has passed since the Barings crisis, which suddenly catapulted the Singapore International Monetary Exchange (Simex) into the world's financial spotlight.

Perhaps the most remarkable result of the crisis has been how well Simex emerged from the process. In the first few days after the news of the Barings failure broke, the exchange managed to settle the bank's outstanding position. How the exchange did the trick is not exactly clear – some bankers think the government helped take some of the financial strain but official sources deny this – and Simex even managed to return some margin payments. Importantly for international confidence in Singapore's status as a financial centre, the market continued to function.

Furthermore, an impressively detailed report ensured that it was authorities in London rather than Singapore which shouldered the bulk of the blame for the fall of Barings.

Volume on the exchange actually increased by 0.8 per cent during 1995, not an impressive growth rate by the standard of previous years, but not bad when some other futures exchanges in the world were recording double-digit declines. Ironically, the large positions built up by Mr Nick Leeson, the Barings trader, may have played a part in this – volume from March to December was 10 per cent lower than in the same period in 1994.

The authorities point to the aftermath of the Daiwa Bank scandal as hitting volume in the last three months of the year; derivatives-related problems such as the financial collapse of Orange County, California, also made institutions cautious about using futures markets in 1995. Traders seem supportive of the official line, saying that liquidity has continued to be good.

Things have so returned to normal that Barings – or rather its new parent, ING – resumed trading on Simex in December. Loose ends still need to be tied up. The authorities have yet to decide whether they will take action against other Barings staff such as Mr James Bax and Mr Simon Jones, who have been under investigation, and what will happen to the cash left after the liquidation of Barings Futures.

Preventing a repeat of the Barings crisis is obviously the top priority for Simex. A review of procedures undertaken by a Blue Ribbon Advisory Panel which reported in October made six broad recommendations.

The exchange should:

- establish rules, and re-evaluate those in place, regarding customer protection with respect to proper margining of positions, segregation and trading floor practices;
- upgrade Simex's clearing system to incorporate real-time clearing, settlement and critical risk management systems;
- establish confidential information-sharing arrangements with other exchanges;
- establish a requirement for clearing members that a senior officer of the firm be registered with the exchange;
- enhance Simex's market surveillance department and establish a large trader reporting system which will enable the exchange to determine the ultimate owner of large positions.

The exchange accepted all of the panel's recommendations and also those of Dr Roger Rutz, the consultant brought in from the US to review the exchange's operations.

"One of the most important things we can do," says Mrs Elizabeth Sam, the Simex chairman, "is to upgrade our reporting systems, including clearing real-time. We think as more contracts are traded, the faster we can clear the better. We are also going back now and reconciling the figures."

More staff have been added in the supervisory area, with a new regulatory and risk management division being created; it has 68 employees, compared with 48 who worked for the equivalent areas in February 1995. Simex hopes to increase this to 75 although the exchange, like many other financial services operations in Singapore, faces the problem of rapid turnover, particularly with staff leaving to join member firms.

"We would like to ensure that something like this never happens again and our task is to put in place a system of surveillance and reporting to minimise the chances of such an incident," says Mrs Sam.

Traders appear to have accepted the need for more stringent regulation and several firms have joined the exchange since the Barings crisis, including Cargill, GNI, BNP Futures and NatWest Futures.

The steady rise of Singapore as a financial centre gives a solid base to the exchange's prospects. Simex is the fourth largest futures exchange in Asia, in volume terms, behind two Tokyo markets and the Sydney exchange in Australia. The main Simex contracts, in terms of volume, are the interest rate plays, the Eurodollar, with 34.6 per cent of total turnover, and Euroyen (27 per cent), and the Nikkei 225 (26.6 per cent); options on the Nikkei are growing in importance.

> The crisis may have helped by highlighting the orderliness of the market

A link with the Chicago Mercantile Exchange, which provides mutual offset on the Eurodollar contract, has helped turnover to grow, as has a perceived cost advantage over the Osaka exchange on the Nikkei contract. Business is roughly divided between regional, European and US traders with regional groups marginally predominating.

Pushing the exchange forward, once the Barings dust has settled, may require a wider contract range. "Every exchange's ambition is to be the leader and we should get there by providing contracts that have an interest on a regional basis," says Mrs Sam.

Possible additional contracts would be one based on the US treasury bond, further energy-related contracts (Brent crude is already traded via a link with the International Petroleum Exchange) and a south-east Asian stock market index, once a satisfactory one is devised.

In a perverse way, the Barings crisis may actually have helped the exchange's ambition by highlighting the orderliness of the market. The fact that Simex was able to unwind the Barings position so quickly without disruption to its market caused some to make favourable comparisons with Osaka. All the same, one gets the sense that Simex would rather not have to prove itself in the same way again.

# Electronic road pricing

Continued from facing page

turn green when they detect an approaching bus.

The white paper says it wants to use competition to promote efficiency in providing bus services and increase choice through the availability of premium buses which offer greater comfort and service. But it comes out against unfettered UK-style deregulation, which it says has led to excess competition on popular routes and discouraged operators from renewing their fleets. To achieve an integrated system, Singapore will expect private operators to ply all routes, even unprofitable ones, at prescribed frequencies and regulated fares.

- Co-ordinated use of town planning to ensure that more high rise developments are concentrated round mass transit stations. The white paper says this "will ensure maximum accessibility for commuters to key nodes of employment, housing, leisure and other social activities".
- A change in the financing philosophy. Whereas the government still believes that public transport should be self-financing at the operating level, it now says it will cover the replacement cost of rail assets rather than just its historic cost as in the past. Since users will not have to contribute to future replacement of trains and track, this will help keep fares reasonable, but each generation will still pay for the capital investment from which it has actually benefited.

Ultimately, the new system should offer the public a high degree of choice with a corresponding range of prices. Electronic road pricing will increase the proportion of motoring costs that come from usage and reduce somewhat the emphasis on the high initial cost of car purchase.

But the LTA plans to retain the system of certificates of entitlement whereby would-be car owners must bid for the right to purchase a car. It is this, above all, which keeps their cost high. Moreover the white paper expresses reservations about a proposal that some certificates should be issued through a ballot rather than by auction to make private motoring accessible to the less well-off.

In public, at least, criticism of this aspect of the plan has been muted. Parliamentary debate on the white paper last month focused less on the cost of motoring and more on the time it would take to get the new transport system up and running, as well as on worry about the cost of fares.

"For a world class system, the general standard has to be high and no part of the system can really be sub-standard," says Mr Kanwaljit Soin, a nominated MP. "But our fares cannot be world-class because a certain proportion of the workforce finds even the present fares a financial burden."

For their part, government officials deny that there is any element of coercion in the new scheme.

Indeed, the philosophy behind the white paper is typically Singaporean in that it relies on a market-pricing approach to achieved a carefully planned social objective. Singapore may have had the foresight to move early but it believes that eventually the type of system it is developing will have to be adopted by governments elsewhere which are currently less willing to take on the private motorist.

**Stock exchange:** by Philip Coggan

# Nominee comes to the aid of the Clob

## Malaysian shares can still be traded, despite Kuala Lumpur's switch to a scripless market

The Singapore stock exchange has a problem. How does it play its part in fulfilling the island's hopes of becoming a regional financial centre when the economy, and thus the market capitalisation of the exchange, is small compared with the country's neighbours?

The problem is exacerbated by the exchange's uneasy relations with neighbouring Malaysia. Before 1973, the two exchanges were one, albeit with separate trading floors in Kuala Lumpur and Singapore. Even after the split, shares were freely traded between the countries until the start of 1990, when Malaysia decreed that none of its companies could be traded on the Singapore exchange.

Singapore responded by creating Clob (Central Limit Order Book) International, a system for trading foreign shares on an over-the-counter basis. With many Singaporeans interested in investing in Malaysian stocks, the success of the Clob system meant that, at times, trading in Malaysian shares constituted 50-60 per cent of the volume on the Singapore exchange.

But the exchange now faces a new threat. Malaysia's move to a scripless market means that, in future, share trades will need to be registered on the Kuala Lumpur exchange computer.

Previously, paper certificates could simply be transferred between investors in Singapore with no need to notify the Malaysian authorities. Some predicted the change would mean the death of Clob International.

But the Singaporeans are not so easily defeated. The Singapore exchange's settlement system, the Central Depositary (Pte) or CDP, has its own account with the Kuala Lumpur exchange. Since CDP acts as a nominee for Singapore investors, trade between them in Malaysian shares can be subsumed within the CDP total.

However, the Singapore exchange's international interests extend beyond Malaysia. It hopes to attract regional companies to list on its foreign board, established in December. In particular, the aim is to attract companies engaged in regional infrastructure projects; the minimum requirements are for them to be worth at least S$300m and to have 15 years to completion.

**Exchange turnover**

| Year | S$bn |
|---|---|
| 1986 | 8.0 |
| 1987 | 22.5 |
| 1988 | 12.7 |
| 1989 | 39.1 |
| 1990 | 36.8 |
| 1991 | 30.5 |
| 1992 | 29.4 |
| 1993 | 127.8 |
| 1994 | 123.5 |
| 1995 | 85.7 |

Source: Singapore Stock Exchange

Another development which should improve liquidity is the privatisation programme. Singapore Telecom has already been floated on the market and Singapore Power is set to be listed this year. Because the Telecom float was targeted at private investors who are "locked in" via the prospect of bonus shares, the listing has, as yet, been of marginal help in improving the depth of the market, but the gradual accumulation of privatised stocks should do the trick in the long run.

The exchange is technically advanced. Shares are traded via a computerised order-driven system and private investors, an important factor in the market, are now able to buy and sell shares at local bank branches using their ATM cards.

Foreign brokers are able to operate in the market, either via joint ventures with local brokers or as international members trading purely for overseas clients (although they can act for Singaporeans with over S$5m). As part of its efforts to build up the foreign board, the exchange has allowed non-members access to its computer system so they can trade in regional stocks.

The exchange has made enormous strides over the past 10 years. Volume has grown from just S$8bn in 1986 to a peak of S$127.8bn in 1993, although it fell to S$85.7bn in 1995, a poor year for emerging markets. The exchange had a market capitalisation of S$261bn at mid-1995.

> A safe haven in a region which sports some volatile bourses

Singapore's stock market is seen as a comparative safe haven in a region which sports some volatile bourses. The challenge for the next 10 years will be to maintain its improvement when other exchanges in Asia, with larger pools of domestic investors, are striving to catch up.

■ **Banking:** by Philip Coggan

# Out of proportion to its size

### Why a state with a 3m population may stay a significant trade centre for the foreseeable future

Banking is probably the best example of how Singapore has an importance in the Asian economy that is out of proportion to its size.

The domestic banking market is small – inevitably so for an island with fewer than 3m citizens – and dominated by four local banks, the Development Bank of Singapore, Overseas Chinese Banking Corporation, Overseas Union Bank and United Overseas Bank.

Yet Singapore is the world's fourth largest centre for foreign exchange trading, is an important regional market for syndicated loans and trade finance and has a good chance of taking a substantial share of what will be a growing securities market. Figures from the Monetary Authority of Singapore show that some 142 commercial banks and 77 merchant banks operate on the island.

Banks are not moving to the island because of its cost advantages; the appreciating Singapore dollar means that the city state is fast becoming as expensive as Hong Kong. There can also be problems with the island's tight labour market; while Singapore is producing highly educated graduates, their expectations are high and the result is rapid staff turnover. While many overseas banks bring in expatriate workers for senior jobs, there can be particular problems in recruiting and retaining staff at the clerical level.

Nevertheless, Singapore's infrastructure, particularly in transport and telecommunications, its efficient regulatory system and its established base of overseas banks mean that it looks likely to be a significant banking centre for the foreseeable future. Some see Hong Kong increasingly as the financial centre for China, while Singapore will perform the same function for the Asean region.

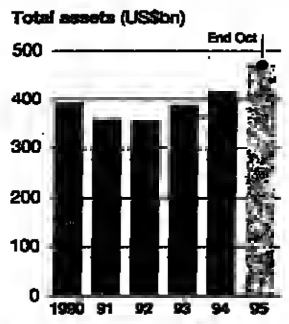
The island's flourishing role as a foreign exchange centre started with the development of the Asian dollar market in the late 1960s. Some bankers suspect that the Monetary Authority of Singapore, with its vast foreign exchange reserves and the Government of Singapore Investment Corporation have also helped to build up the market.

According to the most recent Bank for International Settlements survey, based on data collected in April 1995, Singapore's daily foreign exchange turnover was $105bn, ahead of Hong Kong's $90bn, although well behind the volume generated in the big three centres of London, New York and Tokyo.

Almost half the turnover is in US dollar-mark and dollar-yen trades but local bankers say that trade in regional currencies, such as the Thai baht and Indonesian rupiah, is increasing. Citibank has 13 people in Singapore trading in regional currencies, including several in derivatives.

"Singapore will become an increasingly important foreign exchange centre. If Europe harmonises on a single currency, then market activity will move to some of the Asian regional currencies," believes Mr Seamus Doherty, regional general manager (Asia-Pacific) of Allied Irish Bank.

**Asia dollar market**




Source: Monetary Authority of Singapore

Another growing area of business is the syndicated loan market. The cash-rich Singapore banks are a natural outlet for funds for the growing south-east Asian economy, especially as the Monetary Authority of Singapore is pushing banks to increase their overseas business, as part of the government's regionalisation drive. Loans are predominantly conducted in US dollars, however, since the government has no wish to see the Singapore dollar become internationalised.

> Hong Kong may become China's financial centre, while Singapore performs the same function for the Asean region

In the past, the suspicion was that much of the Asian syndicated loan business was originated in Hong Kong and booked in Singapore for administrative reasons. Now, however, Singapore gets its own mandates.

According to the United Overseas Bank, the syndicated loan market has grown very quickly over the past five years, and funds have been raised for borrowers from Indonesia, Thailand, and China. The Development Bank of Singapore, which is the leading bank in the syndicated loan business in the island state, accounted for 45 deals worth over $5.26bn in 1995.

The emphasis is on lending to the region since the larger Singapore companies tend to be cash-rich with little need to borrow. Indeed, according to Mr Craig Grover, of the corporate and institutional banking division of Standard Chartered in Singapore, cash management is becoming more and more of an issue for many groups. Banks are offering pooling and sweeping services, helping companies to collecting their cash more quickly and invest it more efficiently.

Trade finance is an important area of banking activity, especially as the fast growth of the Asian economies has led to a rapid rise in intra-regional trade. As a trading centre for the region, most Singapore companies have operations outside the country.

One area in which the banks may have scope for expansion is in corporate finance, particularly securities issuance. With margins tight in the lending business, banks are keen to build up their fee-based activities. "There are plenty of infrastructure projects in the region which will need to be funded and as the economy matures, people will become more interested in investing in debt," according to one locally-based banker.

Some overseas banks are involved in the retail market, notably Standard Chartered and Citibank, which also recently assumed responsibility for a new system designed to speed up the clearing of US cheques on the island. Foreign banks also have a niche in the private banking market, especially as there are large numbers of expatriates on the island.

But the local banks dominate the retail market, which is sophisticated by international standards, with widespread use of automated teller machines and credit cards. The big four banks are well capitalised and very profitable, reporting profits of over S$1bn in the first half of 1995. Their main problem may be that it is easier for them to accumulate deposits than make loans.

Given Singapore's small size and expensive property market, some see a danger that real estate lending could eventually generate a bubble. But the watchful Singapore authorities are trying to keep a lid on the situation; banks are limited in their proportion of their capital they can devote to property lending, minimum deposits for residential property have been increased and the government can make sales from its extensive land bank to satisfy demand.

■ **Financial services:** by Philip Coggan

# It's just a small problem

### Because of the island's size, the market must act as a regional hub to attract companies

A successful financial services sector is an essential part of Singapore's long-term development plans. Financial services offer the kind of high value, high-tech businesses in which Singapore has a competitive advantage over its neighbours in the region.

The government has put much effort into building up the financial sector, setting up the Asian dollar market in 1968, for example, which has helped make Singapore the world's fourth largest centre for foreign exchange trading. The establishment of Simex in 1984 added a financial futures market, a development which helped build up the financial sector's critical mass, notwithstanding all the headaches which resulted a decade later during the Baring crisis.

But one problem which continues to face Singapore is its small size. The domestic Singapore market is simply not large enough to attract financial services companies on its own; the island's attractions are mainly as a regional hub.

In September 1994, Mr Lee Kuan Yew, senior minister, admitted in a speech that "our fund management industry is still small compared with other centres". He announced a series of measures designed to entice fund managers to set up shop on the island.

The measures concentrated on opening up the Central Provident Fund, the compulsory savings scheme which Singapore uses to provide for workers' retirement, medical costs and other commitments such as life insurance. Up to 40 per cent of a worker's wages can go into the CPF.

From the start of 1995, approved CPF unit trusts became able to invest up to 20 per cent of their value in foreign stocks and bonds listed on the Stock Exchange of Singapore. Larger investors, with balances of over S$200,000, were given latitude to invest in regional markets.

In 1997, these limits will be expanded. Approved unit trusts will be able to invest in regional stocks and have up to 40 per cent of their portfolios in foreign currency-denominated investments.

The third stage will occur in 1999 when unit trusts will be allowed to invest in global markets such as the US, Germany and Japan.

In addition, the government has decided that its statutory bodies and the Government of Singapore Investment Corporation (GIC) will park some of their funds with private sector fund managers. These moves seem to have succeeded in attracting some fund managers to the island, with Murray Johnstone and Henderson being recent arrivals.

As yet, however, the amounts of money that fund managers have attracted as a result of the reforms are relatively modest. Individuals with CPF accounts can invest in unit trusts only if their balances are fairly high – and even then Singapore investors have a long-standing tendency to prefer direct equity purchases rather than the indirect route of buying a fund.

> The vast Asian continent can easily handle two centres

And government money may only emerge slowly. "The government agencies have plenty of cash but they have medium- and short-term capital spending commitments which may limit the amount which can be exposed to equity risk," says Mr Richard Mountford, deputy chairman of Schroder Investment Management (Singapore).

Mr Mountford, like many other overseas fund managers, sees Singapore as "the obvious place to do regional investment business".

Mr Peter Hames, a director of Abtrust Fund Managers (Singapore), says that the island is "a great place for fund management business. The legislation is supportive and the tax rate is good and competitive with Hong Kong.

According to Mr Christopher Wong, managing director of LGT Asset Management in Singapore, the island "offers very good access to the region with a good airport and telecommunications." As yet, other regional centres such as Malaysia cannot match it.

For the moment, the real competitor for Singapore is Hong Kong. A few companies moved from Hong Kong to Singapore after the Tiananmen Square affair. But there has yet to be any sign of a mass exodus from the colony in advance of the 1997 handover of power to China. Few expect companies to switch to Singapore over the next year, on the grounds that those who were planning to move would have done so already.

Many believe, in any case, that the vast Asian continent can easily handle two financial centres, with Hong Kong likely to be increasingly seen as the financial centre of China. Fund management companies may have one office there and another in Singapore to handle south-east Asian business; some have that arrangement already.

In the past, some financial services companies preferred Hong Kong because of its more liberal securities laws. But increasingly Singapore's well-run regulatory system is being perceived as a strength. For south-east Asian investors, Singapore is coming to be perceived as a "safe haven", where political risk is low and the environment is friendly to business and international capital. Some tag Singapore "the Switzerland of Asia".

Some estimates say that around US$48bn of regional assets are managed out of Singapore, not far behind Hong Kong's US$52bn. Singapore may have to work hard to stay ahead. Malaysia, described by one manager as being "more creative in opening up to fund managers than Singapore", may be a threat in 10 years' time. Indonesia, the fourth largest country in the world in terms of population, is another long-term threat. Eventually, fund managers may want to move to these countries to gain access to the potentially large retail markets.

For the moment, however, Singapore is well placed, with the infrastructure and critical mass to continue to attract international financial services companies.

As the CPF opens up further and more government money becomes available to overseas fund managers, the local market may become more attractive. But, inevitably for such a small state, Singapore's role as a regional hub is the key to its long-term success.

Singapore-based dealers in frantic trading on Simex last year. Some are said to have lost millions in the Barings debacle


Microsoft's Windows 95 proved an instantaneous success in Singapore, with hundreds of orders before its official launch

■ **The media:** by Edward Luce

# The 'intelligent' choice

### Libel laws may be tough, but the island state still attracts big overseas groups

The recent hullabaloo over Singapore's tough libel laws has given the island state a bad name among many western journalists. The successful prosecution of two libel suits against the International Herald Tribune in rapid succession has focused the debate on the city's stringent media laws.

What has been largely overlooked in the process, in an irony which has clearly been lost, is the island state's growing role as a hub and regional headquarters for international media organisations – among them the IHT.

In the last year alone, MTV Asia, Walt Disney Television, the Home Broadcasting Organisation, ESPN (the sports channel) and Reuter's technical services have taken advantage of the city state's generous tax breaks and modern telecommunications system to choose Singapore as their head office for the Asia Pacific. The Economist, Fortune and the IHT are among the growing list of publications which have selected Singapore as their printing headquarters for Asia.

The increasing popularity of Singapore as a media headquarters for the region has gone hand in hand with the declining attraction of Hong Kong – once the obvious choice for English language media services in Asia. Media executives say that this trend is likely to continue.

"In Hong Kong the regulatory environment is still unclear," says Mr Christopher Graves, managing editor of Asia Business News (ABN), a television company based in Singapore. "China has not specified what will happen in broadcasting after 1997 and this has lessened Hong Kong's salience as a regional centre."

ABN, which is 50 per cent owned by Dow Jones, the US information group, was offered an eight-year tax holiday and other substantial incentives when it chose Singapore in 1993. ABN executives say that the only other serious alternative considered apart from Hong Kong was Kuala Lumpur. Singapore's more

Continued on next page

**The port:** by Edward Luce

# Remote control comes aboard

## Measures are in the pipeline to establish a "virtual port" offering "virtual terminals"

In one sense, very little has changed since Sir Stamford Raffles established Singapore as Asia's leading shipping entrepôt early last century. More than 150 years later, Singapore is Asia's and indeed the world's largest port in terms of overall shipping tonnage.

In another sense, however, Sir Stamford would probably be feeling a little out of his depth by now. With measures in the pipeline to establish Singapore as a "virtual port", offering "virtual terminals" and "virtual dedication" services to established shipping lines, Singapore's state-owned port is on the brink of reinventing itself.

Conscious of growing competition from neighbouring rivals such as Jakarta and Manila, as well as the more-established rivalry with Hong Kong, which, at 12.6m TEUs (twenty equivalent units) a year, just outranks Singapore as the world's largest container port, the Port Authority of Singapore is surfing the Net for the port of the future. Interfacing with clients on the digital highway will soon be the norm.

"We are conscious of the fact that port services around the world and especially in Asia, where trade is growing faster than anywhere else, are becoming fiercely competitive," says Mr David Lim, executive director of the PSA. "Although we believe we run the most efficient port in the world, we cannot afford to be complacent."

The Keppel shipyard — Veronica Garbutt

Mr Lim says that within a decade Singapore will have the capacity to tranship more than 30m TEUs a year, which is more than three times the largest capacity in the world. A S$7.1bn investment in a new container terminal will add 18m TEUs to Singapore's capacity, with 29 new berths. More importantly, however, will be the manner in which the new port is operated.

Already, under automation schemes recently put in place by the PSA, computer terminals have been installed on shipping yard cranes which reduces manpower by up to 80 per cent. Under the new system only one operator is needed to control four cranes simultaneously. Under another system known as "BoxNet", lorries exiting the port automatically signal the gate clearance authority which electronically stamps the vehicle's exit permit, thus eliminating the need to stop. The flow of traffic is therefore continuous.

The emergence of digitalised remote control facilities – spurred on partly by the exorbitant cost of labour – has also broken ground with unloading technology. Mr Lim says that the PSA has managed to fit seven cranes onto one ship at a time in what is claimed as a world record. The PSA plans, however, to keep it to a maximum of five cranes.

With more than 100,000 ships stopping at Singapore every year and up to 80 vessels loading and unloading cargo at any one time, the PSA is increasingly having to pre- and post-manage the ship's other destinations. Under a new scheme being offered to shipping lines, maritime freighters need no longer reserve a fixed "dedicated" terminal to access at each call. The PSA says it can provide an alternative "virtual terminal" which allows the line to contact Singapore electronically in advance, stating its needs – turnaround time, TEU capacity and so on.

In addition, for freight bound into Singapore, the authorities have set up a system known as "TradeNet", which allows importers to clear papers and authorise permits by computer in a matter of minutes. Singapore eventually aims to install a wholly paperless trading system. "Things are changing too fast actually to predict what is round the corner," says Mr Lim. "All we can do is adapt the latest technology as quickly and efficiently as possible and offer it to our clients."

**Restaurants:** by Edward Luce

# Keep the stomach guessing

## A short (but stimulating) guide to one of the most diverse culinary spots in the world

Raffles Hotel in Singapore, one of the world's most celebrated hotels — Tony Andrews

Suffering from persistent migraines? Have the kids been yelling all day? Why not try a deep-fried scorpion with minced prawns on toast? The little creature's sting is guaranteed to ease that headache. Or perhaps your lungs have been giving you trouble. If so, why not gobble down a few dozen crispy black ants on shredded potato? Better still – especially if your blood circulation has been sluggish recently – try drinking a stiff glass of deer's herbal wine. It'll get those arteries pumping in no time.

*Singapore's Imperial Herbal* restaurant is evidently not for the squeamish. This unusual eating house, however, serves as an effective rebuke to those who dismiss Singapore as a dull city. One of the best cures for the many who write off Singapore as little more than a giant shopping mall is to sample one of the restaurant's 127 ultra-exotic dishes ranging from an ox teodon *hors d'oeuvre* to frog's gland soup (confusingly named "Buddha jumps over the wall").

If detailed advice is required, you can contact a resident Chinese herbalist for a few startling prescriptions.

Failing that, most items on the menu are accompanied by full descriptions of their medicinal properties. You can take a bowl of double-boiled soft-shell River Turtle soup with Cordycep which, according to the enthused chef, is a "yin, an energy tonic, [which] disperses coagulations, strengthens the body's immune system and prevents cancer". All for S$20 a bowl.

Or you can "preserve the original colour of your hair and lower your blood cholesterol" by wolfing down a dainty plate of Multiflorum jelly for dessert. Perhaps the most cost-effective dish, however, for only S$6 per person, is a bowl of LingZhi (Ganoderma Lucidum) soup which "is beneficial for the following diseases: cancer, hypertension, coronary heart disease, arteriosclerosis, insomnia, chronic hepatitis and asthma". Indeed, the only thing not listed on the menu is a "healthy lashing of hyperbole". Officials from the Trades Description Bureau could have their work cut out.

Devotees of western medicine or those with sensitive intestines need not lose heart though. Singapore can rightly claim to be one of the most diverse culinary spots in the world. The former British colony is an officially multiracial society with a substantial Tamil Indian and Sri Lankan population (approximately 5 per cent of the city state's 2.9m inhabitants), several hundred thousand ethnic Malays and Chinese originating from most of the homeland's southern provinces, including Hainan, Fujian, Guangdong and Yunnan.

Singaporaphobes – those with the habit of discarding cigarette butts at random – might boost their morals by visiting Little India on a Sunday evening. The sprawling quarter, cluttered in subcontinental fashion with bargain-price emphoria, betel-nut stalls and pantheistic shrines, will find some of the best value cooking in Singapore as well as streets littered with smouldering cigarettes. Nicotine enthusiasts should note, however, that the Singapore-wide ban on smoking inside air-conditioned restaurants is enforced in all parts of town.

Packed to the brim on Sundays with Singaporean Indians and many of the city state's thousands of Bangladeshi and Sri Lankan guest workers, the district houses a wide range of good quality Indian restaurants. If fish head curry seems a touch risqué, the Kaabaikudi Banana Leaf restaurant, which is run by a Singaporean born in Kerala, makes a challenging alternative. Eating dahl and rice with your fingers without licking them is almost as difficult as eating a doughnut without licking your lips. Extracting the meat from a hardened crab with one hand is an even more daunting task.

If you want to keep your stomach guessing, what's next on the menu head for the East Coast Seafood centre the following evening. Here you can dine outside overlooking the sea and surrounded by bubbling tanks of large crayfish and unsuspecting lobster. Fastidious Singaporeans ship their giant crab from Sri Lanka to ensure that the "Sri Lankan Pepper Crab" is entirely authentic. More importantly, though, you are permitted to gouge out its contents with both hands, while watching the more experienced Chinese do it with chopsticks.

A number of hawker centres around the city, including the Newton circus which, like much of the city's heritage, is on the list for redevelopment, offer similar experiences. Even Bugis Street – once world-renowned for being lined with throngs of strikingly deceptive transvestites – has become a centre for al fresco seafood dining. The contrast to eating inside one of the city's many indoor shopping centres could not be greater.

Perhaps the greatest contrast, however, and one to remind the stomach that not all in Singapore is a shock to the western metabolism, is to have a slap-up fried breakfast at the Singapore Zoo the next morning. As you devour your sausages, bacon and beans (excellent for the blood circulation and coronary problems) a tubby orang-outang sits opposite, gobbling down an array of exotic fruit. Afterwards, the mother ape and her baby are happy to be photographed while you pat them on the head.

A gentler way of digesting might be to stroll around the zoo for a couple of hours and watch the animals eating their lunch. Singapore Zoo must rate as one of the best designed in the world. Most of the creatures are housed in "natural" open air enclosures. The ambience is enhanced by the fact that the zoo is surrounded by river and jungle.

A word of warning however: This is not a Chinese herbal restaurant. The zoo's creatures have been put there to help educate people about the need for conservation. Therefore do not, under any circumstances, attempt to eat them.

**Guide for business travellers**

# Make the most of your visit

### Visas

Passports are required and must be valid for six months from the day of departure.

Citizens of the Commonwealth, the US and western Europe do not need visas. Other visitors are usually granted a 14-day Visit Pass if they meet the entry requirements: it is necessary to keep the stub of your immigration card until you leave.

However, nationals of India, China and the Commonwealth of Independent States do need visas, a requirement that is relaxed only for some transit passengers.

Visas can be extended at the Immigration Department, 7th floor, Pidemco Centre, 95 South Bridge Rd, Singapore 0105 (tel 5322877) But this is a time-consuming process, and it may be simpler to nip across the causeway to Johor Bahru in Malaysia and then re-enter Singapore on a two-week permit.

### Health

Singapore is not normally regarded as a risk area for malaria. Piped water is safe. Vaccination certificates are required for travellers who within the preceding six days have been in or passed through any country in which yellow fever is prevalent. Polio, hepatitis A, typhoid and tetanus inoculation is required. Immunisation against hepatitis B and diphtheria may also be recommended.

Most big hotels have a doctor on 24-hour call. Pharmaceuticals are readily available over the counter. The Singapore Medical Centre, on the sixth floor of Tanglin shopping centre, houses a large community of specialist doctors.

### Languages

There are four official languages. Malay is the national language and English is the language of administration. Mandarin is increasingly used among the Chinese in place of the main dialects. Tamil is also widely used. In 1992 the average literacy rate among the population aged 10 years and above was estimated to be 91.6 per cent.

### Ethnic groups

In mid-1994, Chinese residents numbered 2.27m (77.5 per cent), Malays 415,900 (14.2 per cent), Indians 208,400 (7.1 per cent) and other ethnic groups 35,300 (1.2 per cent).

### Business etiquette

Appointments must be made in advance. Punctuality is important. For business meetings, men should wear a lightweight suit and tie, women the equivalent. Visiting cards are essential (though government officials do not use them). The cards should be presented with both hands.

When addressing Chinese persons, family or surname is mentioned first. Mr Tan Hock Seng, for instance, would be addressed as Mr Tan. When addressing Malay persons, the first of their two family names is used. Singaporean Indians use many different conventions.

There is often physical contact – but not more than touching or holding hands between men and similarly between women – than in the west. However, men and women should not touch each other. The heads of children should not be patted.

### Business hours

Banks: 10am-3pm (Mon-Fri) 11am-4pm (Sat), 9.30am-3pm (Sun, some only).
Offices: 9am-1pm and 2-5pm (Mon-Fri).
Shops: 9.30am-9pm (seven days a week).

### Climate

The climate is equatorial, with uniformly high temperatures and no defined wet or dry season, rain being plentiful throughout the year, especially from November to January, which are generally the cooler months. The hottest month is May, with the average daily minimum 24°C and the maximum 32°C, the driest month is July, with an average rainfall of 70mm.

Sometimes it rains for several days continuously and there may be serious flooding. Between monsoons, from April to November, there are regular pre-dawn thunderstorms, known as Sumatras, which strike with frightening intensity three or four times a month. Singapore has an average of 180 lightning days a year.

### Behaviour

On-the-spot fines can be imposed for some offences. Smoking is not permitted in public buildings and restaurants, and restricted in other public places. A 10 per cent service charge is included in bills at restaurants and hotels. Further gratuities are officially discouraged, but not illegal.

### In short

Telephone: Country code (65)
Standard time: GMT plus 8 hours
Weights and measures: metric system. Local units (Tahil, Kati, Picul) also used.
Electric current: 230v, 50Hz single phase; 230v, 50 Hz, 3 phase
Emergencies: phone for police 999, for ambulance or fire brigade 995
Driving: On the left. International driving permit required.

*Sources: New Statesman's Yearbook 1995-96, EIU Singapore Country Profile 1995-96, Europe – Far East and Australasia 1996, Singapore Facts and Figures 1995, World Airways Guide, DHL International Business Pocket Book.*

# The 'intelligent' revolution

Continued from previous page

advanced and liberalised satellite uplink services, however, tipped the scales.

"Ever since we established ourselves here, the Singapore Economic Development Board has held our hand and extended every possible service," says Mr Graves. "We regularly get invited to participate in cost-free experiments with new broadcasting and satellite technologies. It is a very convenient place to be based."

However, the city state's success in capturing overseas media investment, which totalled S$160m last year, has not prevented talk about the possible contradiction between the island's commercial ambitions and its tight control over local media content.

The Singaporean authorities say that the only requirement on broadcasters is that they transmit material which is compatible with codes of conduct in the receiving countries. This means avoiding pornography, which is more strictly defined than in the west, and "incendiary" material, which is open to quite broad interpretation in countries such as Indonesia. So far, no problems have arisen.

Ironically, though, owing to the island state's ban on household ownership of satellite dishes, Singaporeans are unable to view most of the channels which are transmitted from the city. Government officials point out, however, that this will have changed by 1998 once fibre optic lines for cable television have been installed around the city.

Known as the IT 2000 programme (Information Technology) most of Singapore's 750,000 homes will be able to receive upwards of 60 channels on broadband cable and are expected to get more than 600 channels – including Internet television – once digital compression switches have been installed at a later date.

Senior officials take a sanguine view of the potentially radical implications that the digital age will have on existing censorship norms. "Well, if you can't beat them, join them," says Mr Colin Binny, director (corporate services) of the *Singapore Broadcasting Authority*. "There will be no time difference between satellite downlinking and receipt of the channels on cable. We will, however, require broadcasters to submit to local content requirements."

Mr Lee Hsien Yang, president of Singapore Telecom, which controls the lion's share of the liberalised satellite uplink market, goes one step further. "The nature of the Internet was not designed for censorship. We would block off the most obviously widely-signposted and undesirable sites but you cannot shut off every dark alley."

To meet the onset of the "intelligent revolution", the Singaporean government has embarked upon an extensive programme to tailor the island's educational system to the multimedia age. Pupils at the secondary school level are trained to use the Internet and encouraged to act responsibly while Online. The EDB has set up media broadcasting courses at the Nanyang Polytechnic to train graduates in skills relevant to international media organisations. An expanding alphabet soup of IT bodies offers research and training to media groups. "Multimedia skilling" appears to be the new buzz phrase in town.

"Singapore is having to shift its educational profile quite rapidly," says Mr Shane Matthews, an investment analyst at Kay Hian James Capel in Singapore. "Up until now, the education system has been geared towards producing engineers and scientists. At the moment foreign media groups are filling the short-term gap in media skills with overseas workers. This will change quite rapidly."

At the same time, in its drive to attract greater investment, Singapore is experimenting with different types of media service including video-on-demand, High Definition Television and other rapidly evolving technologies.

Singapore Telecom, which recently opened its third earth satellite station in Singapore, at a cost of S$84m, believes that the island state will increasingly be competing on the quality and breadth of its technology rather than on cost. The partly-privatised state carrier will be permitted to compete with cable companies on its telephone lines by early next century.

Media companies based in Singapore say that it will take several years before the city's closest rivals, such as Bangkok and Kuala Lumpur, develop the skills base and technological facilities to challenge Singapore's growing primacy. The island, they say, has achieved a "critical mass" of media investment which will difficult to unseat. This, combined with the city state's pro-business approach, apparently outweighs the risks of receiving that much dreaded libel writ.

■ **The 'regionalisation' drive:** by Edward Luce

# Spreading out into Asia

Industrial parks are being set up overseas to create space for the domestic economy

Mention Singapore's current account surplus to government officials nowadays and they look concerned. At a thumping 17.4 per cent of GNP in 1994 (according to the Monetary Authority of Singapore) and expected to continue rising at the exponential rate of previous years, the Singaporean government is in danger of building up more cash than it knows how to handle.

The problem might be considered a luxurious one by neighbouring governments such as Malaysia and Thailand both of which are attempting to cope with growing current account deficits. But for Singapore it has become almost a mantra to guard against complacency, especially on inflation.

At 1.7 per cent last year the island state saw inflation slow to the lowest rate in years. Failure, however, to recycle the current account surplus towards long-term productive investments might quickly reverse the good news on the inflation front. The best solution, according to strategic planners, is to encourage Singapore-based companies to invest more heavily in the fast-growing region.

"We are planning to set up more industrial parks in the region as a way of creating economic space [for the Singapore economy] but also to contribute to the industrial development of regional economies," says Mr Lim Swee Say, managing director of the Economic Development Board in Singapore. "Singapore's high rate of GDP growth is not as sustainable as it used to be as we advance up the economic ladder."

Another problem compounding the need to accelerate Singapore's three-year-old "regionalisation" drive is the island economy's growing labour shortage. At 7.1 per cent last year the growth of labour costs easily outstripped headline inflation. The likelihood that wage rates will continue to rise as the domestic economy approaches capacity adds extra urgency to the government's campaign for companies to push out into the region.

"Singapore is increasingly adopting the characteristics of the Swiss economy," says Mr Bernhard Eschweiler, an economist at J.P. Morgan in Singapore. "This means that it is more and more becoming a GNP-based economy rather than a GDP one and as such will increasingly have to rely upon factor income earned from abroad." In other words, GDP growth will gradually slow to rates normal for a fully-developed economy.

One key advantage, however, which Singapore has over Switzerland is its growing integration with the surrounding region through various free trade bodies such as Asean and Apec.

**Growth in non-oil domestic exports**

| Year | % |
|---|---|
| 1991 | 7.0 |
| 1992 | 8.4 |
| 1993 | 14.9 |
| 1994 | 22.5 |
| 1995 | 13.7 |
| 1996 | 9-11* |

*Official forecast
Source: Trade Development Board

As a natural transhipment hub and a magnet for Asian eutrepôt trade, the island state can also market itself as an obvious choice for multinationals to select as their Asia Pacific headquarters. This is helped by Singapore's excellent infrastructure and telecommunications facilities. The island state's growing pool of high-skilled workers is considered to be another plus point.

"The challenge for the Singapore government is to manage the relocation of companies out into the region," says Mr Ng Bok Eng, an economist at Deutsche Morgan Grenfell. "If the government insists on keeping low value added and labour-intensive operations here, then the labour problem will persist. All the evidence suggests that the Singapore government is full aware of this challenge."

The Singapore government's long-term strategy is therefore two-fold:

● To widen economic space, through the sponsorship of industrial parks and close bilateral trade agreements with neighbouring governments, which will encourage Singaporean companies to shift labour-intensive production to the Asia Pacific region.

This is also being pushed through the government's strong currency policy which forces companies to shift to higher-value added production at home and focus on improving labour productivity at the same time. The Singaporean dollar has appreciated by around 20 per cent against the US dollar since 1993.

● To encourage multinational corporations to choose the island state as their operational headquarters for the Asia Pacific economy. The gradual revamping of Singapore's tertiary education sector to equip graduates with the skills required by multinationals for higher-value added production is a key aspect.

All the signs are that both strategies are beginning to show results.

During the first quarter of 1996 Singapore will add two more industrial parks – the Bangalore Information Technology Park in India and an industrial park near Ho Chi Minh City in Vietnam – to its growing list of government-sponsored investment outlets in the region.

Among these, the Suzhou industrial township in the Yangtsee valley near Shanghai, has already attracted US$1.4bn of foreign investments. The older Batam and Bintan industrial parks in Indonesia, just 40km across the straits from Singapore, are also steadily building up investment pledges from both Singaporean companies and multinational firms based in Singapore.

Singapore police officers march to the central Padang (common) during the celebration of its 30th anniversary last August. In much the same way, a growing number of multinational companies are moving their Asia Pacific headquarters to the island state *Reuter*

The island state's policy of "constructive engagement" with *Burma is also beginning* to bear fruit, with talk of a similar investment outlet being set up there. Singapore's Trade Development Board, which works hand in hand with the EDB, recently opened a bureau in Rangoon, the capital of Burma.

Figures released last month by the Singaporean government show that the island state has become the fifth largest foreign investor in China, with over US$2bn pledged last year. It was also the second largest investor in Burma at US$548m between January and June last year and ranked sixth for India, Vietnam and Indonesia respectively.

Singaporean officials say that the government's standing offer of providing "co-investment" or joint venture capital to companies seeking to set up plants in the region has played a large part in the "regionalisation drive". Foreign companies based in Singapore are also eligible for "co-investment" funds.

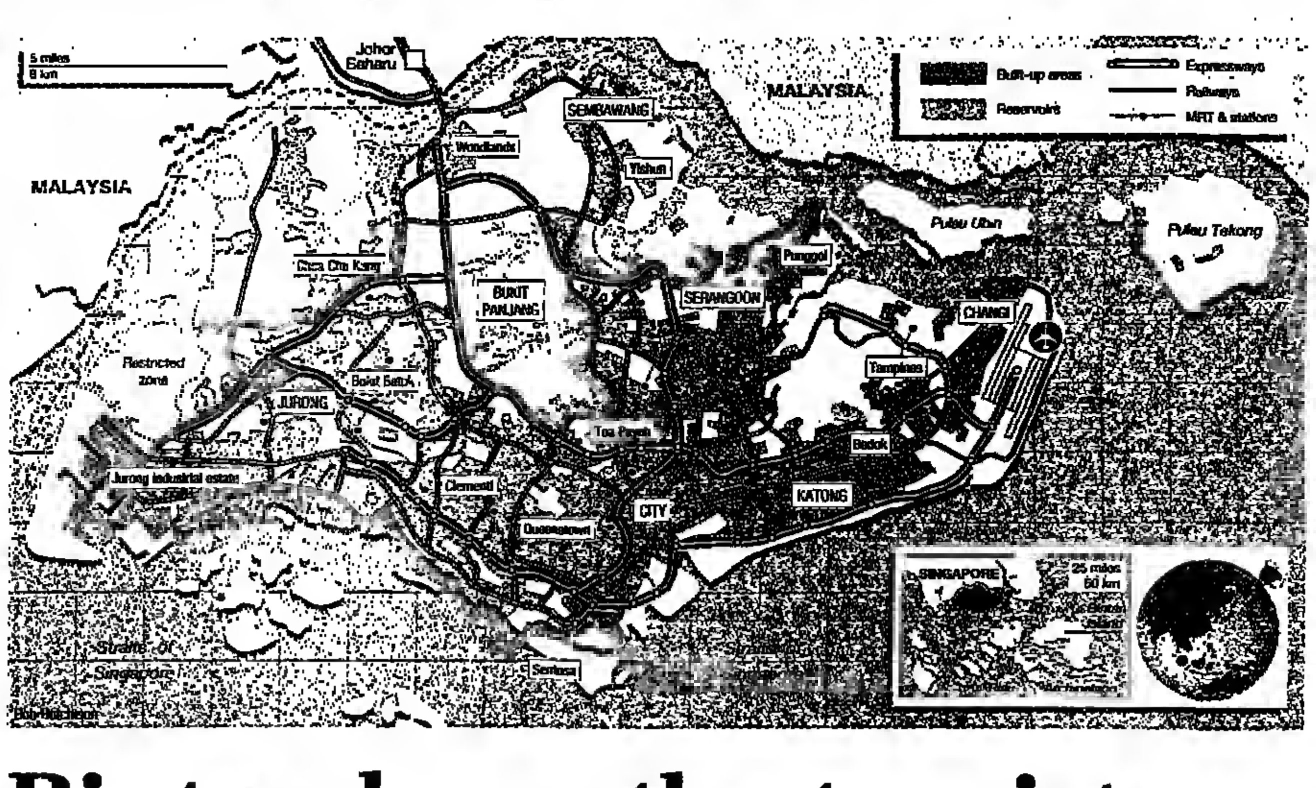
Second, the growing roll-call *of multinationals* choosing Singapore as their headquarters for Asia appears to have vindicated the decision to promote the island state as a regional hub.

Among the 23 multinationals which chose Singapore last year were Siemens, the German electronics company, Hewlett-Packard, the US computer firm, Nokia Mobile Phones, Europe's largest mobile phone manufacturer and Rhône-Poulenc, the European chemicals group.

In most cases the companies cited *incentives* to invest in research and development and the island state's pro-business stance as critical factors in their decision to locate in Singapore. The chance to invest in Singapore-managed industrial zones – or "little Singapores" – throughout the region was also high on the list.

"The reason we opened an office here was because most of our clients were moving here as well," says Mr Simon Hall at Slaughter and May, the British legal firm, which nevertheless *retains its regional* head *office* in Hong Kong. "Most of our clients are investment banks which have moved to Singapore to get a slice of the growing project finance sector for infrastructure schemes around the region."

Singapore's reputation for sticking to its long-term plans and for promoting close co-operation between the private and public sector suggests that its "regionalisation" drive is more than just a passing fad. Whether growing competition from regional centres such as *Shanghai and Kuala Lumpur* will threaten the island state's campaign to upstage Hong Kong as Asia's busiest hub is a moot point. Asia's rapidly growing trada figures and the region's increasing integration suggest that there will probably be enough room for all of them.




# Bintan lures the tourists

One way of persuading Singapore's 7m annual tourists to stay longer and spend more while in the city state is to encourage the visitors to do more than just the usual shopping trawl. The development of an upmarket holiday resort 45km across the straits at Bintan island – part of the Indonesian Riau group of islands – is being touted as just the solution.

The 23,000-hectare project, which is 60 per cent owned by tha Indonesian Salim group, Lim Sioe Liong's diversified conglomerate, and 40 per cent owned by a Singaporean consortium, led by the Singapore Technologies Industrial Corporation, is already receiving tourists. However, the S$8.5bn project will take 20 years fully to develop.

The reaort's management, which has parcelled the vast site (ona-third the size of Singapore) into 65 lots, says it expects up to 300,000 visitors by 1998. The lure of Bintan, it is hoped, will persuade the tourist to remain longer than the average 3.5 days registered last year.

"Its proximity to Singapore gives the republic a new destination even though it is in Indonesia," says Ms Mary Quah of Bintan Resort Management. "The twinning concept is perfect because we can offer the contrast of a city and a resort. We are working on putting packages together, such as four days in Singapore and three on Bintan."

With the opening last year of an International ferry terminal on Bintan and the purchase of a second S$16m catamaran – seating 316 passengers – the resort is now only 45 minutes' journey from Singapore. Once there, so the theory goes, the tourist will be able to revel in the contrast between hectic, urban Singapore and Bintan's tranquil South China Sea ambience.

In typical Singaporean fashion, however, the resort is being master-planned down to the last detail, prompting scepticism that it will turn out to be the gentle hideaway that the resort's marketers have guaranteed. Among others, Club Med, the Shangri-La group and other leaders of the cosmopolitan tourist industry have already booked lots and begun to break ground.

Before long, the newly-arrived tourist will be confronted with the competing prospects of resorts offering golf courses designed by Greg Norman and Gary Player, conducted tours around "agro-tourism" parks where visitors can pick their own fruit and vegetables and a leisure and entertainment centre boasting arcades, cinemas and pubs.

Other facilities in the pipeline include a wildlife sanctuary, modelled on the African safari park concept, a health spa along traditional Indonesian lines and an amusement park offering merry-go-rounds, ferris wheels, bumper cars and high-tech roller-coaster rides.

The energetic tourist need not put his feet up for a minute.

Indeed, the successful development of what will be one of the most integrated tourist resorts in Asia is beyond doubt. The number of leading international corporations involved seems enough to dispel any fear of commercial misjudgment on Singapore's part. One niggling qnestion does, however, arise: with such an impressive array of modern facilities on offer will Bintan be quite the peaceful weekend escape it has been cracked up to be?

**Edward Luce**

# CURRENCIES AND MONEY

**MARKETS REPORT**

## Shrinking trade deficit lends support to dollar

By Philip Gawith

The dollar finished slightly firmer on the foreign exchanges yesterday, helped by confirmation that the US trade deficit was continuing to shrink, and speculation about further economic weakness in Germany.

The dollar was helped by a report in the daily Frankfurter Rundschau, to be published today, that German unemployment rose far more than expected in January, to a record 4.158 million. This would encourage speculation about a further early cut in German interest rates.

The US trade gap with Japan, meanwhile, fell to a $4.13bn deficit in November, *the lowest since May 1993.*

The dollar closed in London at DM1.4773 from DM1.4718, and at Y106.025, from Y105.57.

Sterling held onto the gains made against the D-Mark, finishing at DM2.2719, from DM2.2671. Against the dollar it closed at $1.5379, from $1.5404. The trade weighted index finished at 84.4 from 84.3.

UK interest rates were left unchanged after the monthly monetary meeting between the Chancellor of the Exchequer and the Governor of the Bank of England.

There was little currency movement in Europe, with little evidence of the jitters that prevailed at the end of last month. The D-Mark finished at FFr3.434 against the D-Mark from FFr3.436. The Finnish markka hit a seven month high against the D-Mark at FM3.0920/50.

There was a much firmer tone to the futures markets following the sharp reversals suffered on Monday. Most of the euromark contracts rose by more than ten basis points, with short sterling contracts also making good gains.

A small fall in the South African foreign exchange reserves for January set back hopes of an early relaxation in exchange controls. A consensus poll of Reuters economists had predicted a figure of R16.35bn, compared to the actual figure of R15.45bn.

■ The dollar's rally during Asian trading from a three week low of Y104.65 was prompted by reports that the Bank of Japan had been checking rates at that area – normally a signal that it is considering intervening.

The correction earlier this week which drove the dollar to these lows was explained by Mr Avinash Persaud, currency strategist at JP Morgan, in terms of the declining risk appetite of investors. He said the dollar's rally from Y101 and DM1.44 in early December had been driven by investors confidence to invest in higher yielding European markets.

The setback to confidence came in the form of German output data last week which cast doubt on the more bullish forecasts for German rates.

Mr Persaud said this might well be the "pause which refreshes", because the market was not as long dollars as it had been. But he said there was "scant evidence that we are going to seek increased risk appetite any time soon." The market remains haunted by the dollar's performance in recent years when it flattered, only later to deceive, in the first few weeks.

Mr Dave Abramson, currency strategist at the Bank Credit Analyst in Montreal, said: "Until the foreign reflation plays itself out, there is not going to be much downside to the dollar." He said the German and Japanese economies were showing the delayed effects of excessively tight monetary policy, and hence were being forced to reflate, for the time being.

Mr Abramson said Y100 and DM1.40 would probably be the floor for the dollar, because before it sunk that low, speculators would come in and buy it, confident that the central banks would back them.

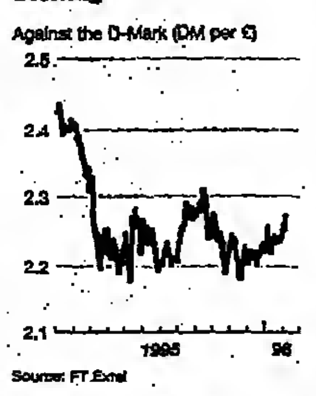
Mr Tim Stewart, currency strategist at Morgan Stanley in New York, said he remained confident the dollar would rally further. "G3 support is still strongly in favour of a stronger dollar, and part of that is to avoid European recession. It is not in Germany or Europe's interest to see the dollar go down."

Mr Stewart said that German rates were set to fall further, and the fall in US rates would not keep pace. While the Japanese economy is clearly gathering steam, he said this was not incompatible with the discount rate staying at current levels.

He said stronger growth could well help the dollar, because it would support company profits and the Nikkei, which would make Japanese institutions more likely to invest abroad.

**Sterling**

Against the D-Mark (DM per £)




Source: FT Extel

■ **Pound in New York**

| Feb 7 | ---Latest--- | -- Prev. close -- |
|---|---|---|
| £ spot | 1.5370 | 1.5415 |
| 1 mth | 1.5358 | 1.5403 |
| 3 mth | 1.5338 | 1.5382 |
| 1 yr | 1.5224 | 1.5262 |

■ **OTHER CURRENCIES**

| Feb 7 | £ | $ |
|---|---|---|
| Czech Kr | 41.6063 - 41.6406 | 27.0610 - 27.0710 |
| Hungary | 217.356 - 217.532 | 141.370 - 141.420 |
| Iran | 4614.60 - 4612.50 | 3000.00 - 3000.00 |
| Kuwait | 0.4597 - 0.4602 | 0.2990 - 0.2992 |
| Poland | 3.9053 - 3.9101 | 2.5400 - 2.5420 |
| Russia | 7271.07 - 7272.37 | 4727.00 - 4730.00 |
| U.A.E. | 5.6462 - 5.6493 | 3.6723 - 3.6727 |

**POUND SPOT** FORWARD AGAINST THE POUND

| Feb 7 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 15.9764 | +0.0336 | 691 - 837 | 15.9679 | 15.9312 | 15.9464 | 2.3 | 15.8839 | 2.8 | - | - | 108.1 |
| Belgium | (BFr) | 46.7199 | +0.1069 | 785 - 813 | 46.7613 | 46.5310 | 46.6099 | 2.9 | 46.3849 | 2.9 | 46.4849 | 2.6 | 108.3 |
| Denmark | (DKr) | 8.7934 | +0.0203 | 891 - 977 | 9.7966 | 8.7691 | 8.7807 | 1.7 | 8.7552 | 1.7 | 8.6552 | 1.8 | 109.4 |
| Finland | (FM) | 7.0235 | +0.0441 | 161 - 308 | 7.0490 | 6.9570 | 7.0191 | 0.8 | 7.0111 | 0.7 | - | - | 84.3 |

**DOLLAR SPOT** FORWARD AGAINST THE DOLLAR

| Feb 7 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.3888 | +0.0387 | 864 - 912 | 10.4020 | 10.3310 | 10.3728 | 1.8 | 10.3388 | 1.9 | 10.2188 | 1.6 | 106.2 |
| Belgium | (BFr) | 30.3800 | +0.12 | 600 - 000 | 30.4010 | 30.2050 | 30.33 | 2.0 | 30.23 | 2.0 | 29.875 | 1.7 | 108.0 |
| Denmark | (DKr) | 5.7180 | +0.0225 | 165 - 195 | 5.7245 | 5.6852 | 5.7138 | 0.9 | 5.7065 | 0.9 | 5.7255 | -0.1 | 108.7 |
| Finland | (FM) | 4.5671 | +0.036 | 633 - 708 | 4.5992 | 4.5105 | 4.5626 | 1.2 | 4.5541 | 1.1 | 4.5376 | 0.6 | 84.6 |

Rates for Feb 6. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 6: Base average 1990=100

**CROSS RATES AND DERIVATIVES**

**EXCHANGE CROSS RATES**

**UK INTEREST RATES**

**LONDON MONEY RATES**

**WORLD INTEREST RATES**

**MONEY RATES**

**EURO CURRENCY INTEREST RATES**

**EMS EUROPEAN CURRENCY UNIT RATES**

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

| Strike Price | CALLS Mar | Jun | Sep | PUTS Mar | Jun | Sep |
|---|---|---|---|---|---|---|
| 9375 | 0.21 | 0.49 | 0.58 | 0.08 | 0.05 | 0.15 |
| 9400 | 0.05 | 0.30 | 0.41 | 0.12 | 0.11 | 0.23 |
| 9425 | 0.01 | 0.15 | 0.27 | 0.33 | 0.21 | 0.34 |

Est. vol. total, Calls 6291 Puts 3175. Previous day's open int., Calls 142029 Puts 145615

### BASE LENDING RATES

| | % |
|---|---|
| Adam & Company | 6.25 |
| Allied Trust Bank | 6.25 |
| AIB Bank | 6.25 |
| ●Henry Ansbacher | 6.25 |
| Bank of Baroda | 6.25 |
| Banco Bilbao Vizcaya | 6.25 |
| Bank of Cyprus | 6.25 |
| Bank of Ireland | 6.25 |
| Bank of India | 6.25 |
| Bank of Scotland | 6.25 |
| Barclays Bank | 6.25 |
| Brit Bk of Mid East | 6.25 |
| ●Brown Shipley & Co Ltd | 6.25 |
| Citibank NA | 6.25 |
| Clydesdale Bank | 6.25 |
| The Co-operative Bank | 6.25 |
| Coutts & Co | 6.25 |
| Credit Lyonnais | 6.25 |
| Cyprus Popular Bank | 6.25 |
| Duncan Lawrie | 6.25 |
| Exeter Bank Limited | 7.25 |
| Financial & Gen Bank | 7.00 |
| ●Robert Fleming & Co | 6.25 |
| Girobank | 6.25 |
| ●Guinness Mahon | 6.25 |
| Habib Bank AG Zurich | 6.25 |
| ●Hambros Bank | 6.25 |
| Heritable & Gen Inv Bk. | 9.25 |
| ●Hill Samuel | 6.25 |
| C. Hoare & Co | 9.25 |
| Hongkong & Shanghai | 6.25 |
| Julian Hodge Bank | 6.25 |
| ●Leopold Joseph & Sons | 6.25 |
| Lloyds Bank | 6.25 |
| Meghraj Bank Ltd | 6.25 |
| Midland Bank | 6.25 |
| • Mount Credit Corp | 6.25 |
| NatWestminster | 6.25 |
| ●Rea Brothers | 6.25 |
| Royal Bk of Scotland | 6.25 |
| ●Singer & Friedlander | 6.25 |
| ●Smith & Williamson Secs | 6.25 |
| TSB | 6.25 |
| United Bank of Kuwait | 6.25 |
| Unity Trust Bank Plc | 6.25 |
| Western Trust | 6.25 |
| Whiteaway Laidlaw | 6.25 |
| Yorkshire Bank | 6.25 |

● Members of London Investment Banking Association
• In administration

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| | Notes | Price | + or - | 52 week high | low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Allied Domecq | [illegible] | 611xd | +4½ | [illegible] | 478½ | 5,265 | [illegible] | 16.5 |
| Bulmer (HP) | [illegible] | 554xd | +5 | [illegible] | 394 | 252.6 | 2.8 | 17.4 |
| Burn St Dist. | [illegible] | 121 | — | 149 | 89 | 71.8 | 5.2 | 26.0 |
| Grand Met | [illegible] | 436xd | +1 | 467 | 361 | 9,085 | 4.3 | 16.3 |
| Guinness | [illegible] | 452 | -4½ | [illegible] | 404 | 9,157 | [illegible] | 14.8 |
| Highland | [illegible] | 331 | — | 406 | 315 | 440.9 | 3.9 | 15.0 |
| Kirin Y | [illegible] | 781¼ | +13½ | 805 | 621 | 8,320 | 5.9 | 30.7 |
| Macallan-Glen | [illegible] | 193 | -5 | 217 | 137 | 187.8 | 1.0 | 35.5 |
| Macdon Martin A | [illegible] | 633 | — | 690 | 600 | 86.7 | 2.2 | 17.8 |
| Matthew Clark | [illegible] | 668xd | +10 | 684 | 539 | 598.1 | 4.1 | – |
| Merrydown | [illegible] | 104 | +1 | 140 | 68 | 11.3 | 2.4 | – |
| Seagram S | | [illegible] | [illegible] | [illegible] | [illegible] | 6,300 | 1.2 | – |

## BANKS, MERCHANT

| | Notes | Price | + or - | 52 week high | low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Barings 8pc Cm 2nd Pf | | 59½ | — | 98 | 50¼ | 6.31 | 19.8 | – |
| Cater Allen | [illegible] | 486 | — | 525 | 416 | 158.5 | 7.8 | 7.8 |
| Close Bros. | [illegible] | 358 | -1 | *379 | 222 | 437.1 | 3.0 | 15.9 |
| Gerrard & Nat | [illegible] | 456 | — | 472 | 385 | 222.5 | 6.2 | 14.7 |
| Hambros | [illegible] | 201 | -7 | 239 | 182 | 355.4 | 4.7 | – |
| 7½pc Cv Pf | | 121½ | -1½ | 116 | 94 | 130.7 | 9.2 | – |
| Joseph (L) | [illegible] | 453 | — | 463 | 353 | 24.0 | 5.2 | 15.6 |
| King & Shaxson | [illegible] | 184 | +4 | 184 | 88 | 43.3 | 6.9 | 12.7 |
| Rea Brothers | [illegible] | 80 | — | 47 | 44 | 28.0 | 2.1 | 24.0 |
| Schroders | [illegible] | 1250 | -15 | *1478 | 905¼ | 1,885 | 1.4 | 17.8 |
| N/V | [illegible] | 1003 | -15 | *1180 | 823¼ | 441.6 | 1.8 | 14.3 |
| Singer & Fried. | [illegible] | 105 | — | 111 | 61 | 207.2 | 4.4 | 10.8 |
| 8½pc Cv Ln 09/14 | | 4133 | — | £137 | 21⅞ | 40.6 | 0.4 | – |
| Union | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## BANKS, RETAIL

[illegible]

## BREWERIES, PUBS & REST

[illegible]

## BUILDING & CONSTRUCTION

[illegible]

## BUILDING MATS. & MERCHANTS

[illegible]

## BUILDING MATS. & MERCHANTS - Cont.

[illegible]

## CHEMICALS

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQPT

[illegible]

## ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING, VEHICLES

[illegible]

## EXTRACTIVE INDUSTRIES

[illegible]

## EXTRACTIVE INDUSTRIES - Cont.

[illegible]

## FOOD PRODUCERS

[illegible]

## GAS DISTRIBUTION

[illegible]

## HEALTH CARE

[illegible]

## HOUSEHOLD GOODS

[illegible]

## HOUSEHOLD GOODS - Cont.

[illegible]

## INSURANCE

[illegible]

## INVESTMENT TRUSTS

[illegible]

## INVESTMENT TRUSTS - Cont.

[illegible]

## INV TRUSTS SPLIT CAPITAL

[illegible]

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# LONDON SHARE SERVICE

## INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

## OTHER INVESTMENT TRUSTS

[illegible]

## INVESTMENT COMPANIES

[illegible]

## LEISURE & HOTELS

[illegible]

## LEISURE & HOTELS - Cont.

[illegible]

## LIFE ASSURANCE

[illegible]

## MEDIA

[illegible]

## OIL EXPLORATION & PRODUCTION

[illegible]

## OIL, INTEGRATED

[illegible]

## OTHER FINANCIAL

[illegible]

## OTHER FINANCIAL - Cont.

[illegible]

## PAPER, PACKAGING & PRINTING

[illegible]

## PHARMACEUTICALS

[illegible]



## PHARMACEUTICALS - Cont.

| | Notes | Price | + or - | 52 week high | low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Peptide Therapeutics | | 201 | -1 | 280 | 200 | 68.2 | - | - |
| Proteus Intl | | 65 | -4 | 193 | 60 | 78.8 | - | - |
| Ransom (Wm) | | 57 | - | 93 | 44 | 8.85 | 4.6 | 13.0 |
| Schering DM | | £46⅞ | | £69½ | £41⅞ | 3,177 | 1.5 | - |
| Scotia | | 684 | +3 | 718 | 333 | 433.0 | - | - |
| SmKl Beecham A | | 716 | +1 | 737 | 477 | 10,031 | 2.4 | 21.3 |
| Equity Units | | 716 | +2 | 731 | 450 | 9,391 | 2.4 | 21.1 |
| Zeneca | | 1242 | -5 | 1337½ | 840 | 11,781 | 2.6 | 25.3 |

## PROPERTY

[illegible]

## PROPERTY - Cont.

[illegible]

## RETAILERS, FOOD

[illegible]

## RETAILERS, GENERAL

[illegible]

## RETAILERS, GENERAL - Cont.

[illegible]

## SUPPORT SERVICES

[illegible]

## SUPPORT SERVICES - Cont.

[illegible]

## TELECOMMUNICATIONS

[illegible]

## TEXTILES & APPAREL

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## WATER

[illegible]

## AIM

[illegible]

## AIM - Cont.

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## SOUTH AFRICANS

| | Notes | Price | + or - | 52 week high | low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind | | £30½ | | £34½ | £29 | 2,036 | 2.8 | 14.9 |
| Barlow | ‡ | £10¼ | | 210⅝ | £5⅞ | 2,022 | 1.5 | Φ |
| Gold Flds Prop R | | 170 | | 170 | 138 | 17.4 | 6.3 | 7.8 |
| Nk Props | | 93 | | 96 | 85 | 3.82 | 12.6 | - |
| SASOL | ♥ | 585 | -3 | 648 | 475 | 3,314 | 2.5 | - |
| SA Brews | | £24⅛ | | £26⅞ | £14⅛ | 7,344 | 1.4 | 33.3 |
| Standard Bank | | £31⅛ | | £32⅞ | £20⅞ | 3,776 | 1.5 | 21.8 |
| Tiger Oats | | 1250 | | 1270 | 725 | 1,880 | 1.5 | Φ |
| Tongaat-Hulett | † | 1188 | | 1247 | 536 | 1,198 | 1.7 | 22.3 |

## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised & dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☆ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
& Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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### FT Cityline

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Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

# FT MANAGED FUNDS SERVICE

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## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

### BERMUDA (REGULATED)(**)

### GUERNSEY (SIB RECOGNISED)

### GUERNSEY (REGULATED)(**)

### IRELAND (SIB RECOGNISED)

### IRELAND (REGULATED)(**)

### ISLE OF MAN (SIB RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (SIB RECOGNISED)

### JERSEY (REGULATED)(**)

### LUXEMBOURG (SIB RECOGNISED)

### LUXEMBOURG (REGULATED)(**)

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# FT MANAGED FUNDS SERVICE

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| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Credit Investment Funds - Contd.** | | | | |
| [illegible] | | | | |
| **Nikko Asia Convertible Bond Fund** | | | | |
| Nikko Asia Conv Bond NAV | $10.60 | | - | - |
| **Nikko Bank (Luxembourg) S.A.** | | | | |
| [illegible] | | | | |
| **Nomura Asian Infrastructure Fd SICAV** | | | | |
| NAV | $22.51 | | -0.03 | - |
| For Oasis Fund see Fleming Group | | | | |
| **Pacific Basin Growth Fund** | | | | |
| [illegible] | | | | |
| **Pan-Holding SA** | | | | |
| [illegible] | | | | |
| **Pictet Group** | | | | |
| Asia Growth | $104.75 | | - | - |
| [illegible] | | | | |
| **CMI Insurance Co Ltd** | | | | |
| [illegible] | | | | |
| **Royal Life International** | | | | |
| [illegible] | | | | |

## OTHER OFFSHORE FUNDS

[illegible]

## OFFSHORE INSURANCES

[illegible]

**MANAGED FUNDS NOTES**

[illegible]

# LONDON STOCK EXCHANGE

**MARKET REPORT**

# Earnings worries take the shine off Footsie

By Philip Coggan, Markets Editor

Worries about the effect on corporate profits growth of the slowing world economy hit share prices in London yesterday, in spite of a positive lead from Wall Street and international bond markets.

By the close the FT-SE 100-share index had dropped 21.4 points to 3,726.1, almost its worst level of the day. "A lot of the weakness is due to people recognising that we are getting near to the results season, and it is unlikely that there are going to be any pleasant surprises," said Mr Murray Wilson, UK strategist at NatWest Securities.

Analysts are still revising down their forecasts for 1995 earnings growth and are also trimming their optimism about the outlook for 1996. A significant problem is that, on top of the slowdown in the UK, economies in Europe and the US are also looking weak.

The latest in a long series of profits warnings came from Prowting, the housebuilder. But another symptom of a slowing economy, in the form of expected weakness in US and European motor sales, hit engineering shares sharply.

The market received a brief lift from yet another record close on Wall Street, where the Dow Jones Industrial Average surged 52 points on Tuesday. At its best, shortly after the opening, the Footsie was 10.5 points higher at 3,758.0.

But the initial gain soon dissipated, in spite of another spurt of bid activity, with the announcement of an offer for Lloyds Chemists from Gehe, of Germany, rivalling an earlier bid from Unichem. There were hopes that Unichem might return with a counter-offer.

Speculation about a possible bid for Pearson, which owns the Financial Times, refused to die, and there was a revival of the story that United News & Media might be selling the Express titles.

But in contrast to 1995, takeover rumours are not lifting the overall market, and furthermore, not even a good day for gilts helped equities. Tuesday's US Treasury bond auction was completed successfully, prompting a wave of relief in international bond markets, and the benchmark 10-year gilt finished around a third of a point higher.

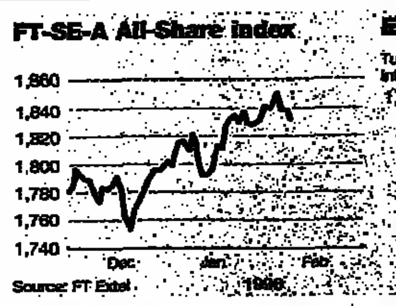
Mr Mark Brown, head of strategy and economics at ABN Amro Hoare Govett, said: "Over the last couple of weeks, there has been a shift of perception in global bond markets in reaction to the latest round of interest rate cuts. The policy priority is seen to have moved away from controlling inflation towards reviving the real economy. The bond market may have turned an important corner."

As a result of this, equity valuations have got stretched relative to bonds. Mr Wilson of NatWest points out that the yield on the All-Share index has got dangerously close to the real yield on index-linked gilts, normally a warning sign for shares.

Shares trickled lower in the afternoon, and for once, traders could not blame Wall Street. The Dow was around four points higher at the close of London trading.

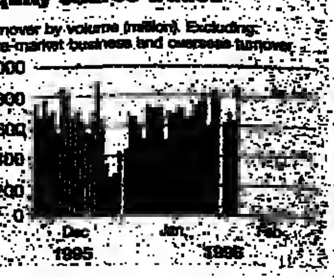
Volume was 705.5m shares by the 6pm count, of which around 56 per cent was in non-FT-SE 100 stocks. The value of customer business on Tuesday was £2.04bn, its highest level since the previous Wednesday.

**FT-SE-A All-Share Index**



**Equity shares traded**

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Source: FT Extel

**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FT-SE 100 | 3726.1 | -21.4 | FT Ordinary Index | 2738.6 | -21.9 |
| FT-SE Mid 250 | 4147.1 | +7.0 | FT-SE-A Non Fins p/e | 17.00 | (17.08) |
| FT-SE-A 350 | 1857.1 | -7.7 | FT-SE100 Fut Mar | 3740.0 | -21.0 |
| FT-SE-A All-Share | 1832.41 | -7.00 | 10 yr Gilt yield | 7.61 | (7.66) |
| FT-SE-A All-Share yield | 3.73 | (3.72) | Long gilt/equity yld ratio: | 2.16 | (2.18) |

**Best performing sectors**

1 Health Care +0.8
2 Gas Distribution +0.2
3 Property +0.2
4 Investment Tst +0.2
5 Retailers, Food +0.1

**Worst performing sectors**

1 Engineering, Vehicles -2.1
2 Tobacco -1.6
3 Diversified Inds -1.0
4 Extractive Inds -0.8
5 Banks, Merchant -0.9

# Airbus worries hit BAe

Leading engineers had a torrid day, with GKN, British Aerospace and TI Group accounting for the bottom three slots in the Footsie rankings.

Scare stories about the cost to BAe of participation in a new version of the Airbus took a firm grip on trader's imaginations and BAe shares came off 24 to 839p for a three-day decline of near to 7 per cent.

BAe's partners in Airbus – France's Aerospatiale and Dasa, of Germany – are known to be keen to compete more directly with Boeing and stretch the present 300 seater Airbus to 550.

So far BAe, which has a 20 per cent stake in the European aircraft-making consortium, has made no comment. But calculations among City analysts suggest any project of this size could involve BAe in outlays of up to £1.5bn.

Capital spending on this level equates with several years' cashflow for BAe. The market talk yesterday was of heightened risk for the shares after their strong run-up in the traditional January rally for the sector.

GKN narrowly pipped BAe as the worst performing Footsie stock, tumbling 28 to 825p as concern about weak motor industry trading in the US and Europe pushed the shares sharply lower.

The deflated motor sentiment left TI Group 11 cheaper at 468p, and Lucas Industries off 5 at 193p in heavy turnover of 7.3m shares. Among second line engineers, packaging machinery group Molins jumped 25 to 849p. The shares stood at 490p last year.

## Bid tussle

The market braced itself for a fierce bid battle for Lloyds Chemists, after German group Gebe finally launched a counter-offer for the retail pharmacy chain, topping UniChem's agreed share and cash offer.

Europe's largest drugs wholesaler pitched its cash bid at 450p a share for the ordinary stock, against UniChem's offer for the ordinary shares which, when valued at last night's close, stood at 408p a share.

One analyst said: "I expect UniChem to launch a counter-offer. They really seem to want this business." Analysts and traders were anticipating that UniChem could raise its offer to around 475p a share, though the more optimistic were suggesting it may choose to make a "knockout" offer of 500p.

The prospect of an improved offer helped shares in Lloyds Chemists reverse Tuesday's decline and close 23 ahead at 467p, after a busy session that brought volume of 9.6m. UniChem shares were also in favour and they hardened 3 to 248p, having 3.7m traded by the close. Pharmaceuticals distributor United Drug moved ahead 20 to 310p in sympathy.

In the rest of the retailers, further selling of Boots saw the shares relinquish another 2 to 604p. BZW has taken the stock off the buy list and now rates the stock a hold.

United News & Media, the group which owns the Daily Express newspaper, jumped as takeover chatter returned. Dealers suggested Sir Andrew Lloyd Webber, the composer and entrepreneur, was poised to pay some £300m for the Express, Sunday Express and Daily Star newspapers.

However, there were also suggestions that Mr Tony O'Reilly of the Irish Independent was ready to show his hand. Finally, there were hints that the group's regional newspapers might be up for sale.

Although the rumours have been around before, they grabbed a market hungry for gossip on a quiet day. And analysts said United's "no comment" response – compared to a straightforward denial last time – was bound to raise the speculative temperature. United rose 29 to 624p.

Television stocks moved higher, with persistent takeover rumours joined by optimism for terrestrial channels in the light of a House of Lords vote to keep eight major sports events on the terrestrial network.

Scottish Television moved forward 18 to 594p, HTV 3 to 349p and Yorkshire Tyne Tees 21 to 847p. Meanwhile, BSkyB, the satellite channel, was down 8 at worst but closed just 2 off at 390p.

Cable shares, held in check in recent months by poor penetration figures, rebounded sharply. TeleWest Communications, which has lagged behind the market as a whole by 21 per cent over the past three months, jumped to the top of the FT-SE Mid 250 rankings. It rose 10½ to 145p, while rival group NYNEX moved up 4 to 95p in 2.7m dealt.

Telecoms giant BT was the most active Footsie stock, dipping 4 to 356½p in turnover of 18m shares.

British Gas was heavily traded, as dealers continued to take a view on Tuesday's demerger announcement.

Along with volume of 14m shares in the equity market, the equivalent of a further 12m shares changed hands in the form of traded options. The stock finished the day unchanged at 243p.

Courtaulds fell 8 to 428p on talk that Merrill Lynch had turned cautious on the stock.

BAA came off 3 to 486p amid talk of switching into a new convertible stock, which was said to have overshadowed the airport group's strong third-quarter results. UBS placed £260m of 6 per cent convertible shortly after the announcement of the results and the shares, initially up 2, quickly turned tail.

Eurotunnel remained in favour following Tuesday's upbeat traffic numbers. The shares raced up the FT-SE Mid 250 rankings, gaining a further 5 at 84p.

A profits warning from housebuilder Prowting led to a number of steep broker downgrades, and the shares closed off 11 at 102p. Charterhouse Tilney cut back its 1995 estimate from £9m to £6.2m and felt that Prowting's statement augured badly for next week's results from sector leader Bryant.

Among building materials stocks glass giant Pilkington jumped 5 to 206p, on a sizeable export order, to top the day's Footsie rankings. In contrast, Caradon retreated 12 to 216p in 2.9m traded.

A broker's recommendation helped international drinks and retailing group Allied Domecq shake off Tuesday's decline which followed the group's second profits warning in seven months.

The shares firmed 4½ to 511p, in trade of 3.6m, after NatWest Securities upgraded its recommendation from "hold" to "add".

Carpet group Headlam rose 8 to 220p after the group announced it was buying two companies for £20.7m. It intends to raise £18.3m in a one-for-four rights issue at 185p per share.

John Waddington, the games company, was heavily traded as Wise Speke, the Newcastle based broker placed 5.4m shares, which represented a 5.2 per cent stake in the company, at 190p a share. The underlying shares slipped 5 to 197p.

USM-quoted Learmonth & Burchett Management Systems fell 146 to 177p after warning that third quarter figures would be below analysts' expectations and result in a net loss.

Britannic, the insurer, improved 2 to 755p with ABN Amro Hoare Govett said to be predicting dividend growth of 20 per cent.

National Grid eased 2½ to 197p as Merrill Lynch reiterated its bearish stance.

Medeva gained 8 to 242p on a recommendation from Lehman Brothers.

Yorkshire Electricity dipped 12 pence to 729p on Tuesday's statement that it had received no bid approaches.

**MARKET REPORTERS:**
Peter John, Joel Kibazo, Jeffrey Brown.

## FINANCIAL TIMES EQUITY INDICES

| | Feb 7 | Feb 6 | Feb 5 | Feb 2 | Feb 1 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| Ordinary Share | 2738.6 | 2760.5 | 2758.8 | 2784.6 | 2762.8 | 2337.7 | 2788.2 | 2238.3 |
| Ord. div. yield | 3.82 | 3.79 | 3.78 | 3.76 | 3.79 | 4.50 | 4.73 | 3.76 |
| P/E ratio net | 16.92 | 17.07 | 17.05 | 17.20 | 17.08 | 17.82 | 21.33 | 15.35 |
| P/E ratio nil | 16.71 | 16.85 | 16.88 | 16.98 | 16.85 | 16.95 | 22.21 | 15.17 |

*For 1995/96. Ordinary Share index since compilation: high 2788.2 18/01/96; low 49.4 26/6/40. Base Date: 1/7/35.

**Ordinary Share hourly changes**

| Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | High | Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 2765.9 | 2762.1 | 2753.5 | 2748.0 | 2747.4 | 2741.4 | 2740.8 | 2741.3 | 2741.6 | 2765.9 | 2738.5 |

| | Feb 7 | Feb 6 | Feb 5 | Feb 2 | Feb 1 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 29,586 | 31,942 | 36,020 | 33,086 | 32,442 | 19,972 |
| Equity turnover (£m)† | - | 2041.6 | 1649.5 | 1961.3 | 1628.8 | 1313.8 |
| Equity bargains† | - | 38,511 | 40,685 | 37,512 | 34,841 | 27,736 |
| Shares traded (ml)† | - | 833.7 | 634.9 | 691.1 | 619.5 | 574.4 |

†Excluding intra-market business and overseas turnover.

**London market data**

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 734 | Total Highs | 177 | Total contracts | 51,877 |
| Total Falls | 491 | Total Lows | 19 | Calls | 27,152 |
| Same | 1,563 | | | Puts | 24,725 |

Feb. 7 *Data based on Equity shares listed on the London Share Service.

## FUTURES AND OPTIONS

**FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)**

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 3768.0 | 3732.0 | -29.0 | 3772.0 | 3730.0 | 12797 | 65026 |
| Jun | 3771.0 | 3734.5 | -28.5 | 3771.0 | 3740.5 | 401 | 1328 |
| Sep | | 3752.0 | -29.0 | | | 0 | 287 |

**FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point**

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | | 4160.0 | +5.0 | | | 0 | 3307 |

**FT-SE 100 INDEX OPTION (LIFFE) (*3727) £10 per full index point**

| | 3550 C | 3550 P | 3600 C | 3600 P | 3650 C | 3650 P | 3700 C | 3700 P | 3750 C | 3750 P | 3800 C | 3800 P | 3850 C | 3850 P | 3900 C | 3900 P |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Feb | 189 | 1½ | 131½ | 2½ | 85½ | 5½ | 46 | 16 | 16 | 38½ | 3½ | 86 | 1 | 136 | 1 | 186 |
| Mar | 191 | 11 | 149½ | 10 | 109½ | 29 | 74½ | 45 | 47 | 67½ | 26 | 99 | 13½ | 139½ | 6 | 188 |
| Apr | 196 | 25 | 157½ | 36 | 121½ | 50 | 91½ | 69½ | 66½ | 93½ | 44½ | 122 | 29 | 157½ | 18½ | 197 |
| May | 216 | 39½ | 178 | 51 | 145 | 67½ | 114 | 26 | 88 | 110 | 63 | 135½ | 45½ | 168 | 30 | 204 |
| Jun† | | | 190½ | 61 | | | 127 | 96½ | | | 79½ | 147½ | | | 46 | 215½ |

Calls 5,488 Puts 7,486

**EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point**

| | 3575 C | 3575 P | 3625 C | 3625 P | 3675 C | 3675 P | 3725 C | 3725 P | 3775 C | 3775 P | 3825 C | 3825 P | 3875 C | 3875 P | 3925 C | 3925 P |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Feb | 155 | 1½ | 107 | 3½ | 63½ | 9½ | 29 | 25 | 9½ | 55 | 2 | 97½ | 1 | 146 | ½ | 195½ |
| Mar | 168 | 10 | 123½ | 17 | 86½ | 30 | 56½ | 49½ | 33½ | 76½ | 18 | 110½ | 8 | 150 | 3 | 195 |
| Apr | 179 | 32 | 142 | 44½ | 109½ | 61 | 89½ | 81½ | 57 | 107½ | 38½ | 138 | 24½ | 174 | 15 | 213½ |
| Jun | | | 180 | 73 | | | 117½ | 106 | | | 79½ | 159 | | | 41½ | 228 |
| Sept† | | | 222 | 100 | | | 161 | 135 | | | 112 | 182½ | | | 76 | 242½ |

Calls 5,175 Puts 6,602 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1995/96 High | 1995/96 Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | F.P. | 6.28 | 6½ | 5¾ | †Ballynatray | 6 | | - | - | - | - |
| 120 | F.P. | 23.8 | 125 | 115 | Century Inns | 119 | -1 | - | - | - | - |
| - | F.P. | 13.7 | 90 | 72 | †Dmatek | 73 | | - | - | - | - |
| 60 | F.P. | 35.4 | 68 | 65 | MediaKey | 65 | | Lv0.96 | - | 1.8 | - |
| - | F.P. | 0.13 | 8 | 8 | †Nthn Prtim Wrts | 8 | | - | - | - | - |
| - | F.P. | 1.13 | 105 | 100 | †Revelation P'dilly | 105 | | - | - | - | - |
| 54 | F.P. | 3.21 | 60 | 53 | †Self Sealing Syst | 55 | +2 | - | - | - | - |
| - | F.P. | 0.97 | 8½ | 6 | †SkyePharma Wts | 8 | | - | - | - | - |
| - | F.P. | 6.00 | 205 | 125 | †Viewinn | 200 | | - | - | - | - |

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

## FT GOLD MINES INDEX

| | Feb 6 | % chg on day | Feb 5 | Year ago | Gross div yield % | P/E ratio | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (33) | 2508.50 | -0.8 | 2528.73 | 1582.38 | 1.35 | - | 2528.73 | 1669.36 |
| **Regional Indices** | | | | | | | | |
| Africa (16) | 3487.40 | -0.7 | 3482.85 | 2614.28 | 2.62 | 38.28 | 3538.58 | 2272.74 |
| Australasia (5) | 2825.67 | -2.7 | 2902.92 | 1966.36 | 2.05 | 43.06 | 2927.34 | 1788.20 |
| North America (12) | 2186.39 | +0.0 | 2186.38 | 1380.88 | 0.62 | 65.97 | 2186.39 | 1366.39 |

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## FT - SE Actuaries Share Indices — The UK Series

| | Feb 7 | Day's chge% | Feb 6 | Feb 5 | Feb 2 | Year ago | Div. yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | 3726.1 | -0.6 | 3747.5 | 3748.6 | 3781.3 | 3072.5 | 3.85 | 2.07 | 15.68 | 9.12 | 1493.14 |
| FT-SE Mid 250 | 4147.1 | +0.2 | 4140.1 | 4136.4 | 4162.6 | 3413.1 | 3.54 | 1.75 | 20.18 | 21.26 | 1542.15 |
| FT-SE Mid 250 ex Inv Trusts | 4152.4 | +0.2 | 4145.1 | 4141.6 | 4157.5 | 3421.8 | 3.68 | 1.80 | 18.86 | 23.61 | 1646.27 |
| FT-SE-A 350 | 1857.1 | -0.4 | 1864.8 | 1864.1 | 1879.2 | 1531.1 | 3.76 | 2.01 | 16.46 | 5.66 | 1523.20 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**FT-SE Actuaries All-Share**

| | Feb 7 | Day's chge% | Feb 6 | Feb 5 | Feb 2 | Year ago | Div. yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**Hourly movements**

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | High/day | Low/day |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Mid 250 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A 350 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**FT-SE Actuaries 350 Industry baskets**

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | Close | Previous | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bldg & Cnstrcn | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Pharmaceuticals | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Water | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Banks, Retail | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

[illegible]

## TRADING VOLUME

**Major Stocks Yesterday**

| | Vol. 000s | Closing price | Day's change |
|---|---|---|---|
| 3i† | 541 | 413 | +2 |
| ASDA Group† | 0,000 | 104½ | |
| Abbey National† | 2,500 | 600 | -4 |
| Albert Fisher | 584 | 48½ | -½ |
| Allied Domecq† | 3,600 | 511 | +4½ |
| Anglian Water | 417 | 578 | +3 |
| Argos† | 190 | 579 | -3 |
| Argyll Group† | 10,000 | 312 | |
| Arjo Wiggins | 881 | 187 | |
| Assoc. Brit. Foods† | 986 | 367 | -2 |
| Assoc. Brit. Ports | 777 | 293 | -2 |
| BAA† | 5,000 | 486 | -3 |
| BAT Inds.† | 3,200 | 567 | -9 |
| BET | 3,400 | 134 | -2½ |
| BICC | 654 | 285 | -3 |
| BOC† | 1,800 | 940 | -4 |
| BP† | 6,400 | 631 | -3 |
| BPB Inds. | 1,800 | 314 | +1 |
| BSkyB† | 2,000 | 390 | -2 |
| BT† | 18,000 | 356½ | -4 |
| BTR† | 7,900 | 328 | -6½ |
| Bank of Scotland† | 5,100 | 292½ | -1½ |
| Barclays† | 5,700 | 768 | -9 |
| Bass† | 1,700 | 743 | +4 |
| Blue Circle† | 4,000 | 368 | -2 |
| Booker | 126 | 370 | |
| Boots† | 1,100 | 604 | -2 |
| Britannic | 1,800 | 755 | +2 |
| Brit. Aerospace† | 4,400 | 839 | -24 |
| British Airways† | 1,900 | 505½ | +½ |
| British Gas† | 14,000 | 243 | +½ |
| British Land | 184 | 397 | +1 |
| British Steel† | 3,300 | 170½ | -1½ |
| Bunzl | 1,100 | 183 | -2 |
| Burmah Castrol† | 321 | 984 | -2 |
| Burton† | 4,200 | 125½ | |
| Cable & Wire† | 5,600 | 454 | -3 |
| Cadbury Schweppes† | 1,700 | 534 | -1 |
| Caradon | 2,900 | 216 | -12 |
| Carlton Comms.† | 1,200 | 1034 | -12 |
| Coats Viyella | 2,200 | 188 | -4 |
| Comm. Union† | 400 | 610 | -2 |
| Compass | 1,200 | 483 | -2 |
| Cookson† | 2,200 | 294 | -5 |
| Courtaulds† | 1,700 | 428 | -8 |
| Dalgety | 432 | 425 | +8 |
| De La Rue | 997 | 726 | |
| Dixons† | 1,500 | 427 | -2 |
| [illegible] | [illegible] | [illegible] | [illegible] |

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Feb 7 / Sch)

BELGIUM/LUXEMBOURG (Feb 7 / Frs.)

CZECH REP (Feb 7 / Koruna)

DENMARK (Feb 7 / Kr)

FINLAND (Feb 7 / Mkk)

FRANCE (Feb 7 / Frs.)

GREECE (Feb 7 / Drachma)

ITALY (Feb 7 / Lire)

GERMANY (Feb 7 / Dm.)

NETHERLANDS (Feb 7 / Fls.)

NORWAY (Feb 7 / Kroner)

POLAND (Feb 7 / Zloty)

PORTUGAL (Feb 7 / Escudo)

SPAIN (Feb 7 / Pts.)

SWEDEN (Feb 7 / Kronor)

SWITZERLAND (Feb 7 / Frs.)

TURKEY (Feb 7 / TL Lira)



## PACIFIC

JAPAN (Feb 7 / Yen)

HONG KONG (Feb 7 / H.K.$)

INDONESIA (Feb 7 / Rupiah)

MALAYSIA (Feb 7 / MYR)

NEW ZEALAND (Feb 7 / NZ $)

SINGAPORE (Feb 7 / S$)

AUSTRALIA (Feb 7 / Aust$)

SOUTH KOREA (Feb 7 / Won)

TAIWAN (Feb 7 / TW $)

THAILAND (Feb 7 / Baht)

## NORTH AMERICA

CANADA

TORONTO (Feb 7 / Can $)
4 pm close

MONTREAL (Feb 7 / Can $)
4 pm close

## AFRICA

SOUTH AFRICA (Feb 7 / Rand)

## INDICES

| | Feb 7 | Feb 6 | Feb 5 | 1995/96 High | | Low | |
|---|---|---|---|---|---|---|---|
| **Argentina** | | | | | | | |
| General(29/12/77) | (u) | 17546.43 | 17369.21 | 18191.85 | 31/1/96 | 9831.09 | 9/3/95 |
| **Australia** | | | | | | | |
| All Ordinaries(1/1/80) | 2273.7 | 2269.7 | 2271.7 | 2293.20 | 2/2/96 | 1823.30 | 8/2/95 |
| All Mining(1/1/80) | 1054.2 | 1049.8 | 1056.7 | 1058.50 | 2/2/96 | 795.30 | 8/2/95 |
| **Austria** | | | | | | | |
| Credit Aktien(30/12/84) | 385.76 | 384.84 | 382.59 | 395.42 | 2/1/95 | 328.90 | 27/10/95 |
| Traded Index(2/1/91) | 1094.98 | 1089.09 | 1075.45 | 1094.98 | 7/2/96 | 882.15 | 23/10/95 |
| **Belgium** | | | | | | | |
| BEL20(1/1/91) | 1692.22 | 1684.51 | 1685.99 | 1715.74 | 1/2/96 | 1271.53 | 9/3/95 |
| **Brazil** | | | | | | | |
| Bovespa(29/12/83) | (u) | 53541.0 | 53329.0 | 54109.00 | 2/2/96 | 21382.00 | 9/3/95 |
| **Canada** | | | | | | | |
| Metals Mins(1975) | (u) | 5324.10 | 5230.11 | 5324.10 | 6/2/96 | 3806.63 | 1/3/95 |
| Composite(1975) | (u) | 5049.47 | 5033.32 | 5049.47 | 6/2/96 | 3981.41 | 30/1/95 |
| Portfolio(4/1/83) | (u) | 2479.65 | 2467.35 | 2479.65 | 6/2/96 | 1953.36 | 30/1/95 |
| **Chile** | | | | | | | |
| IPSA Gen(31/12/80) | (u) | 5690.44 | 5732.79 | 6363.10 | 11/7/95 | 4576.90 | 9/3/95 |
| **Denmark** | | | | | | | |
| CopenhagenSE(3/1/83) | 388.14 | 386.18 | 386.46 | 389.29 | 25/1/96 | 330.01 | 29/3/95 |
| **Finland** | | | | | | | |
| HEX General(28/12/90) | 1823.16 | 1823.48 | 1795.79 | 2332.22 | 14/9/95 | 1555.30 | 29/3/95 |
| **France** | | | | | | | |
| SBF 250(31/12/90) | 1325.02 | 1323.62 | 1320.54 | 1338.17 | 1/2/96 | 1154.41 | 13/3/95 |
| CAC 40(31/12/87) | 1983.29 | 1988.47 | 1985.59 | 2024.09 | 1/2/96 | 1721.14 | 23/10/95 |
| **Germany** | | | | | | | |
| FAZ Aktien(31/12/58) | 873.60 | 867.81 | 868.22 | 882.59 | 1/2/96 | 708.87 | 30/3/95 |
| Commerzbank(1/12/53) | 2532.4 | 2516.5 | 2512.0 | 2559.50 | 31/1/96 | 2018.70 | 30/3/95 |
| DAX(30/12/87) | 2446.16 | 2428.28 | 2419.24 | 2479.14 | 31/1/96 | 1910.95 | 28/3/95 |
| **Greece** | | | | | | | |
| Athens SE(31/12/80) | 982.88 | 972.56 | 962.07 | 996.30 | 22/1/96 | 787.15 | 16/3/95 |
| **Hong Kong** | | | | | | | |
| Hang Seng(31/7/64) | 11398.59 | 11391.38 | 11494.12 | 11494.12 | 5/2/96 | 6967.93 | 23/1/95 |
| **India** | | | | | | | |
| BSE Sens.(1979) | 3202.49 | 3154.89 | 3233.32 | 3932.89 | 2/1/95 | 2828.08 | 25/1/96 |
| **Indonesia** | | | | | | | |
| Jakarta Comp.(10/8/82) | 591.36 | 592.92 | 591.14 | 592.92 | 6/2/95 | 414.21 | 19/4/95 |
| **Ireland** | | | | | | | |
| ISEQ Overall(4/1/88) | 2316.99 | 2315.07 | 2312.87 | 2334.07 | 31/1/96 | 1813.59 | 23/1/95 |
| **Italy** | | | | | | | |
| Banca Comm Ital(1972) | 627.95 | 625.06 | 628.84 | 680.54 | 10/2/95 | 547.79 | 5/12/95 |
| MIB General(2/1/95) | 1065.0 | 1060.0 | 1063.0 | 1070.00 | 2/2/96 | 982.00 | 15/1/96 |
| **Japan** | | | | | | | |
| Nikkei 225(16/5/49) | 20943.49 | 20751.15 | 20653.38 | 20943.49 | 7/2/96 | 14485.40 | 3/7/95 |
| Nikkei 300(1/10/82) | 302.91 | 299.05 | 298.45 | 307.98 | 5/1/96 | 222.26 | 13/6/95 |
| Topix(4/1/68) | 1622.14 | 1602.89 | 1601.00 | 1632.03 | 5/1/96 | 1193.16 | 13/6/95 |
| 2nd Section(4/1/68) | 2103.36 | 2098.27 | 2110.31 | 2130.66 | 4/1/95 | 1441.90 | 13/6/95 |
| **Malaysia** | | | | | | | |
| KLSE Comp.(4/4/86) | 1080.01 | 1082.79 | 1079.88 | 1095.04 | 5/6/95 | 840.87 | 24/1/95 |
| **Mexico** | | | | | | | |
| IPC(Nov 1978) | (u) | 3048.09 | (c) | 3101.82 | 2/2/96 | 1447.52 | 27/2/95 |
| **Netherland** | | | | | | | |
| CBS TtlRtnGen(End 83) | 557.6 | 555.6 | 552.8 | 558.20 | 2/2/96 | 422.90 | 23/3/95 |
| CBS All Shr(End 83) | 337.6 | 336.6 | 334.7 | 338.00 | 2/2/96 | 285.20 | 23/3/95 |
| **New Zealand** | | | | | | | |
| Cap. 40(1/7/86) | 2113.94 | (c) | 2108.37 | 2206.02 | 20/10/95 | 1901.43 | 5/1/95 |
| **Norway** | | | | | | | |
| Oslo SE(Ind)(2/1/83) | 1278.06 | 1275.45 | 1274.60 | 1316.20 | 8/1/96 | 1036.00 | 10/3/95 |
| **Philippines** | | | | | | | |
| Manila Comp(2/1/85) | 2882.94 | 2915.03 | 2919.24 | 2998.12 | 10/7/95 | 2196.48 | 20/11/95 |
| **Portugal** | | | | | | | |
| BTA(1977) | 2649.0 | 2645.5 | 2654.5 | 2911.80 | 9/1/95 | 2412.90 | 22/11/95 |
| **Singapore** | | | | | | | |
| SES All-S'pore(2/4/75) | 603.01 | 607.49 | 610.37 | 610.37 | 5/2/96 | 472.90 | 23/1/95 |
| **South Africa** | | | | | | | |
| JSE Gold(28/9/78) | 1917.9 | 1867.5 | 1880.9 | 2023.09 | 2/1/95 | 1250.20 | 30/10/95 |
| JSE Ind.(28/9/78) | 8566.0 | 8537.7 | 8546.4 | 8739.30 | 25/1/96 | 6822.00 | 31/1/95 |
| **South Korea** | | | | | | | |
| KoreaCmpEx(4/1/80) | 883.87 | 881.21 | 890.68 | 1027.37 | 2/1/95 | 842.72 | 20/1/96 |
| **Spain** | | | | | | | |
| Madrid SE(30/12/85) | 328.68 | 328.30 | 327.34 | 331.88 | 1/2/96 | 284.09 | 23/3/95 |
| **Sweden** | | | | | | | |
| AffarsvardnGen(1/2/37) | 1800.9 | 1788.6 | 1778.6 | 1872.10 | 19/9/95 | 1439.80 | 23/3/95 |
| **Switzerland** | | | | | | | |
| Swiss Bk Ind(31/12/58) | 1552.71 | 1549.06 | 1536.01 | 1578.89 | 4/1/96 | 1174.93 | 13/3/95 |
| SBC General(1/4/87) | 1138.23 | 1135.96 | 1126.50 | 1165.59 | 4/1/96 | 878.58 | 13/3/95 |
| **Taiwan** | | | | | | | |
| WeightedPr.(30/6/66) | 4758.83 | 4690.22 | 4759.25 | 7061.49 | 5/1/95 | 4503.37 | 14/8/95 |
| **Thailand** | | | | | | | |
| Bangkok SET(30/4/75) | 1408.73 | 1415.04 | 1410.98 | 1472.04 | 10/7/95 | 1135.89 | 16/3/95 |
| **Turkey** | | | | | | | |
| Istanbul Comp.(Jan 1986) | 52047.2 | 51692.8 | 52298.3 | 54893.98 | 21/4/95 | 24844.30 | 23/1/95 |
| **WORLD** | | | | | | | |
| MS Capital Intl(1/1/70) | 764.9 | 754.1 | 751.5 | 754.90 | 7/2/96 | 588.21 | 23/1/95 |
| **CROSS-BORDER** | | | | | | | |
| Eurotrack 100(26/10/90) | 1557.83 | 1551.45 | 1548.16 | 1570.74 | 1/2/96 | 1222.41 | 13/3/95 |
| Euro Top-100(26/6/90) | 1395.47 | 1396.57 | 1390.36 | 1410.32 | 2/2/96 | 1117.34 | 8/3/95 |
| JCapeGldgns(31/12/68) | (u) | 379.15 | 380.75 | 380.75 | 5/2/96 | 282.07 | 23/1/95 |
| ING Bmgs Emrg(7/1/92) | 161.91 | 161.86 | 162.72 | 162.72 | 5/2/96 | 117.10 | 10/3/95 |

## INDEX FUTURES

CAC 40 (200 x Index)

DAX

OMX

SOFFEX

## US INDICES

| Dow Jones | Feb 6 | Feb 5 | Feb 2 | 1995/96 High | 1995/96 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 5459.61 | 5407.59 | 5373.99 | [illegible] (6/2/96) | 3832.08 (30/1/95) | [illegible] (6/2/96) | 41.22 (2/7/32) |
| Home Bonds | 105.86 | 105.81 | 105.91 | 105.91 (2/2/96) | 93.63 (3/1/95) | 109.77 (18/10/93) | 54.99 (1/10/81) |
| Transport | 1991.75 | 1955.10 | 1980.22 | 2082.11 (5/12/95) | 1473.10 (3/1/95) | 2082.11 (5/12/95) | 12.32 (8/7/32) |
| Utilities | 231.85 | 230.23 | 228.90 | 231.86 (6/2/96) | 183.03 (3/1/95) | 256.48 (21/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 5483.82 (5433.86) Low 5371.82 (5319.43) (Theoretical)
Day's high 5459.97 (5407.95) Low 5367.11 (5348.34) (Actual)

| Standard and Poors | Feb 6 | Feb 5 | Feb 2 | 1995/96 High | 1995/96 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 646.33 | 641.43 | 635.84 | 646.33 (6/2/96) | 459.11 (3/1/95) | 646.33 (6/2/96) | 4.40 (1/6/32) |
| Industrials | 758.46 | 753.68 | 746.95 | 758.46 (6/2/96) | 546.28 (3/1/95) | 758.46 (6/2/96) | 3.62 (21/6/82) |
| Financial | 65.32 | 64.50 | 64.09 | 65.32 (6/2/96) | 41.64 (3/1/95) | 65.32 (6/2/96) | 8.64 (1/10/74) |
| NYSE Comp. | 344.68 | 342.26 | 340.09 | 344.68 (6/2/96) | 250.73 (3/1/95) | 344.68 (6/2/96) | 4.46 (25/4/42) |
| Amex Mkt Val | 559.96 | 557.27 | 555.54 | 559.96 (6/2/96) | 433.12 (6/1/95) | 559.96 (6/2/96) | 29.31 (9/12/72) |
| NASDAQ Cmp | 1089.08 | 1083.34 | 1072.11 | 1089.08 (6/2/96) | 743.58 (3/1/95) | 1089.08 (6/2/96) | 54.87 (31/10/72) |

### RATIOS

| | Feb 2 | Jan 26 | Jan 19 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.19 | 2.24 | 2.26 | 2.73 |
| | Jan 31 | Jan 24 | Jan 17 | Year ago |
| S & P Ind. Div. yield | 1.91 | 1.95 | 2.01 | 2.42 |
| S & P Ind. P/E ratio | 19.43 | 18.98 | 18.42 | 18.98 |

### NEW YORK ACTIVE STOCKS

| Tuesday | Stocks traded | Close price | Change on day |
|---|---|---|---|
| Micron | 18,749,000 | 41⅞ | +4⅛ |
| Texas Insts | 5,802,100 | 54¼ | +1⅛ |
| WMX Tech | 5,738,700 | 29 | -1 |
| Safeway | 5,336,400 | 25½ | +⅛ |
| Bruder Intl | 5,068,900 | 42¾ | +1½ |
| IBM | 5,038,900 | 114⅞ | +2½ |
| Ford Motor | 4,831,600 | 29¼ | ---- |
| Loral | 4,275,400 | 46½ | -⅛ |
| Amer T & T | 4,238,400 | 67⅝ | +2⅛ |
| Fedl Health | 4,222,200 | 33¼ | +⅛ |

### TRADING ACTIVITY

● Volume (million)

| | Feb 6 | Feb 5 | Feb 2 |
|---|---|---|---|
| New York SE | 468.951 | 380.223 | 418.487 |
| Amex | 32.382 | 29.42 | 34.662 |
| NASDAQ | 604.487 | 524.976 | 573.786 |
| **NYSE** | | | |
| Issues Traded | 3,118 | 3,091 | 3,084 |
| Rises | 1,390 | 1,250 | 1,040 |
| Falls | 938 | 1,099 | 1,270 |
| Unchanged | 788 | 742 | 774 |
| New Highs | 235 | 154 | 204 |
| New Lows | 14 | 18 | 20 |

### S&P 500

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 648.20 | 650.45 | +2.25 | 650.60 | 647.90 | 88,967 | 190,326 |
| Jun | 653.80 | 656.30 | +2.40 | 656.30 | 653.65 | 1,668 | 10,260 |

### Nikkei 225

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 20700.0 | 21000.0 | +190.0 | 21100.0 | 20660.0 | 24,418 | 153,186 |
| Jun | 20730.0 | 21040.0 | +220.0 | 21090.0 | 20690.0 | 888 | 22,654 |

Open interest figures for previous day.

Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995/96, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $



### TOKYO - MOST ACTIVE STOCKS: Wednesday, February 7, 1996

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Kanebo | 29.2m | 372 | +2 |
| Toyota Motor Co | 21.2m | 2320 | |
| Nissan Motor Co | 17.1m | 836 | +1 |
| Toshiba Corp | 17.0m | 844 | +17 |
| Central Glass | 12.4m | 562 | +7 |
| Showa Line | 10.6m | 225 | -3 |
| Oki Electric Ind | 10.3m | 896 | +33 |
| Maruha Corp | 9.7m | 415 | +12 |
| Mitsubishi Hvy | 9.4m | 870 | +30 |
| Nippon Stl Corp | 9.4m | 358 | |

1 pm February 7

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1995/96 High | Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 22¼ | 12⅛ | AAR x | 0.48 | 2.4 | 23 | 67 | 20 | 19¾ | 19¾ | -⅛ |
| 46¼ | 35 | AMP x | 1.00 | 2.4 | 20 | 3239 | 41⅛ | 41 | 41⅛ | +¼ |
| 62½ | 52⅜ | AMR | | | 32 | 3610 | 61⅝ | 60¼ | 61 | +¼ |
| 50½ | 36⅜ | ASA | 2.00 | 4.6 | 33 | 1875 | u50½ | 49⅝ | 49⅞ | +½ |
| 44¾ | 30¾ | AbbotL | 0.84 | 2.0 | 20 | 5832 | 43⅛ | 42½ | 42⅞ | +¼ |
| 18⅞ | 12 | Abitibi Pr | 0.40 | 2.4 | 9 | 567 | 16⅞ | 16⅝ | 16⅝ | |
| 28½ | 21 | ABM Ind | 0.70 | 2.5 | 14 | 14 | 21½ | 21⅛ | 21½ | +⅛ |
| 17½ | 13⅛ | Acptncein | | | 10 | 271 | 15 | 14⅜ | 14⅞ | -⅛ |
| 45⅛ | 21⅞ | ACE Ltd | 0.56 | 1.2 | 10 | 397 | u45⅜ | 44½ | 45 | +¼ |
| 9⅞ | 8⅛ | ACM Gvt In x | 0.90 | 9.2 | 9 | 146 | 9¾ | 9⅝ | 9¾ | +⅛ |
| 7⅞ | 6½ | ACM GvOpp x | 0.66 | 8.5 | | 36 | 7¾ | 7¾ | 7¾ | -¼ |
| 7½ | 5¾ | ACM Gvt Sp x | 0.75 | 10.5 | | 45 | 7⅛ | 7 | 7⅛ | |
| 9 | 7¼ | ACM Gvt Se x | 0.90 | 10.1 | | 177 | u9 | 8⅞ | 8⅞ | |
| 9½ | 7⅝ | ACM Man x | 0.88 | 9.9 | | 182 | 9¼ | 9⅛ | 9⅛ | -⅛ |
| 29¼ | 10¼ | AcmeClv x | 0.52 | 2.7 | 4 | 226 | 19 | 18⅞ | 19 | |
| 38¾ | 7⅜ | Acme Elect | | | 63 | 98 | 7¾ | 7⅝ | 7⅝ | -¼ |
| 34½ | 22¼ | Acordia | 0.72 | 2.6 | 15 | 150 | 27⅞ | 27¾ | 27¾ | -¼ |
| 16¾ | 10⅛ | Acuson | | | 48 | 300 | 14¾ | 14½ | 14⅛ | |
| 19⅜ | 15⅝ | Adams Expr | 0.36 | 1.9 | 0 | 330 | 19⅜ | 19⅛ | 19⅜ | +¼ |
| 38⅞ | 16⅛ | AdvMic | | | 7 | 4553 | 21 | 20¼ | 20¼ | -⅝ |
| 9⅞ | 5 | Advest Grp | 0.16 | 1.6 | 9 | 272 | u9⅞ | 9¾ | 9¼ | |
| 27½ | 16½ | Advo Inc | 0.10 | 0.5 | 21 | 359 | 21 | 20⅞ | 20⅞ | |
| 46¾ | 24.80 | Aegon | 1.28 | 3.1 | 15 | 56 | 42⅛ | 41⅝ | 41¾ | -¼ |
| 5⅞ | 3⅜ | Aerfix | | | 7 | 202 | 4 | 3¾ | 4 | +¼ |
| 76¾ | 46¾ | Aetnal. x | 2.76 | 3.7 | 35 | 4033 | 74⅞ | 74¼ | 74⅜ | -⅝ |
| 49½ | 31⅞ | Aflac | 0.52 | 1.1 | 14 | 694 | 48¼ | 47¾ | 47¾ | -⅛ |
| 28⅜ | 16 | Ahmnsn | 0.85 | 3.6 | 7 | 6019 | 24½ | 24⅛ | 24⅜ | |
| 59½ | 48⅞ | AirPrC | 1.04 | 2.0 | 15 | 1604 | 52⅛ | 51¾ | 51⅞ | -⅛ |
| 29½ | 18⅜ | Airbrne Frt | 0.30 | 1.2 | 24 | 441 | 26 | 25¼ | 25⅜ | -½ |
| 37⅛ | 19⅝ | Airgas Inc | | | 32 | 152 | u37⅛ | 36⅞ | 37⅛ | +½ |
| 18 | 13½ | Airlease | 2.38 | 11.3 | 12 | 6 | 17¾ | 17⅝ | 17⅝ | |
| [illegible] | | | | | | | | | | |

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FINANCIAL TIMES

Continued on next page

4 pm close February 7

# NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

# NASDAQ NATIONAL MARKET

4 pm close February 7

[illegible]

# AMEX COMPOSITE PRICES

4 pm close February 7

[illegible]

AMERICA

# Broad market flattens as tech stocks weaken

### Wall Street

After several days of strong gains, US shares were mostly flat in early trading yesterday as technology companies gave up some of the increases made so far this month, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was off 1.08 at 5,458.53. The Standard & Poor's 500 was 0.47 lower at 645.86 but the American Stock Exchange composite rose 0.84 to 560.90. NYSE volume was heavy at 266m shares.

The Nasdaq composite, which has a 40 per cent weighting in technology companies, was the weakest of the major indices, falling 7.32 to 1,061.76. The Pacific stock exchange technology index was off 1.3 per cent.

Semiconductor stocks, which had led the charge higher, fell sharply. Applied Materials, which had climbed $7⅞ since the end of January, shed $3⅝ to $40⅝, and Lam Research, up nearly $20 in the past three weeks, fell $4⅞ to $47⅞.

Intel, the largest semiconductor maker in the world and the second largest company on the Nasdaq, lost $1⅞ at $75⅝.

IBM, which is a component of the Dow, also fell off its recent pattern of setting 52-week highs and relinquished $1⅞ at $113.

However, America Online managed to continue its upward pace after reporting fourth-quarter earnings of 10 cents a share, in line with analysts' estimates. Shares in the provider of online services rose $⅞ to $48⅞.

There was little reaction in the market to news that the US trade deficit had fallen to $7.1bn in November from $8.2bn in October. Analysts were expecting the deficit to have risen to $8.4bn.

Those figures were expected to be good for the market, because they indicated that the economy was stronger than many economists had thought, with lower imports offering better prospects for corporate earnings in the future.

Mattel, the US toy group, rose $1⅛ to $34 after reporting fourth-quarter earnings of 50 cents a share, exactly in line with analysts' estimates.

Air Touch, the cellular communications company, edged up $⅜ to $31⅜ in spite of posting earnings per share of 2 cents, about half of what analysts had been expecting.

Pyxis jumped $6⅝ or 43 per cent to $22½ after agreeing to be acquired by Cardinal Health for about $23.70 a share.

Shares in Cardinal Health, a wholesale drug distributor, shed $1⅝ or 3 per cent to $57⅝.

### Canada

Toronto turned back from a firm opening to trade lower by midday, in line with the late morning weakness on Wall Street and as Comex gold tumbled.

The TSE 300 composite index was down 9.51 by noon at 5,089.96 in very heavy volume of 71.7m shares.

Among gold shares, Barrick Gold fell C$⅝ to C$43⅝.

Moving in the opposite direction, Group Videotron picked up C$1⅛ to C$12⅝ as the company said that it was rethinking its UK cable and telephony investments.

### SOUTH AFRICA

Brisk demand for gold shares and renewed interest in industrial blue chips was seen. The golds index advanced 50 points or 2.7 per cent to 1,917, while the overall index moved up 39 to 6,960 and the industrials index rallied 27 to 6,567. Among individual features, Freegold strengthened R1.75 to R43, Kloof R3.50 to R56 and Dries R2.35 to R62.70.

EUROPE

# Thrills and spills as Paris loses ground

There were thrills, and spills, in PARIS. Usinor Sacilor rallied FFr3.45 or 5 per cent to FFr78.75 as CS First Boston initiated coverage of the steel company with a buy recommendation. CSFB believed that the fundamentals were good, "and that the current valuation fully discounts the bad news of the first half of 1996".

Synthelabo was pressured by news that its Eliprodil brain haemorrhage drug was less effective than had been hoped, and the stock lost FFr24 or 7 per cent to FFr329.

Canal Plus retreated FFr47 to FFr963 on reports that CLT, of Luxembourg, was to join with the satellite group led by Mr Robert Murdoch to launch a digital television channel in Germany. There were worries that this would end a commitment by CLT to a similar venture being proposed by Canal Plus.

The broad market breached the 2,000 level briefly during the day but, unable to find the momentum to support itself at this level, it retreated steadily during the rest of the session. The CAC-40 index finished 5.18 off at 1,983.29. Turnover amounted to FFr6bn.

James Capel's technical analysts said recently that, having rallied strongly from the 1,720 level, the market continued to encounter severe resistance at 2,000 which was likely to contain its current bull run.

FRANKFURT built on Tuesday's late gains, turnover rising from DM8.3bn to DM9.7bn as the Dax index closed 4.45 higher at an Ibis-indicated 2,442.43.

There was a lot of activity in and around the chemicals area. Hoechst rose DM7.70 to DM454.50 in spite of another production accident, as a sulphuric acid escape released a toxic cloud above its main plant.

Brokers said that the market was fixed on Hoechst's drive for shareholder value, rather than its relationship with its environment.

Altana, which lost its speculative appeal for a while after it sold its Milupa baby food business to Nutricia last August, came back with a DM52 gain to a high of DM945; and Fresenius went for its third big day in succession, the prefs hitting DM179 before ending unchanged at DM166.

On the downside, the pharmaceuticals wholesaler Gehe fell DM12 to DM753 after a "generous" counter-bid for Lloyds Chemists, of the UK; and Bremer Vulkan declined DM1 to DM29 after a consortium of banks postponed a scheduled DM220m loan.

AMSTERDAM consolidated, helped by a firm bond market and dollar, and the AEX index finished 2.08 up at 504.81.

Philips encountered profit-taking after rises in recent days following its tough stance on Grundig, and the shares dipped Fl 1.20 to Fl 67.60. But cyclicals had a good day, with Akzo, popular at the moment, up Fl 2.30 at Fl 186.20 after Tuesday's Fl 5.10 gain.

Fokker stayed at the mercy of speculators, falling to Fl 1 in early trade as the market finally accepted that equity and bond holders would lose out in any rescue deal for the aircraft maker's subsidiaries. It rallied later to Fl 2.80, off Fl 1.50 on the day.

The company said after the close that bankruptcy was now the "probable" option for the holding company, since none of the potential partners had expressed interest in making a bid for the quoted shares and bonds.

ZURICH edged ahead, encouraged by a technical bounce in the bond market, and the SMI index finished 8.9 higher at 3,262.7. Financials were mostly weaker on continued fears of worldwide bond market volatility, while chemicals and pharmaceuticals were mostly higher.

Mid-cap stocks continued to draw attention. Adia, the temporary employment agency, added SFr6 at SFr235, taking its advance to 15 per cent since the group reported first-quarter results on January 26.

Mr Frederick Hasslauer at Bank Sal Oppenheim, who recommended the stock, noted that confidence was returning after Adia's long period of financial restructuring as investors focused on a 66 per cent first-quarter profits rise.

MILAN gave up most of its early gains; politics once again intruded, with worries over the apparent lack of progress being made by Mr Antonio Maccanico, the prime minister designate, in putting together a new government.

The Comit index rose 2.87 to 627.95, while the real-time Mibtel index finished 6 ahead at 9,999, off a high of 10,042.

Montedison was down L12 at L1,028 in spite of a 13.2 per cent increase in 1995 sales, while Ferruzzi picked up L7.30 to L860.90. Olivetti continued on its volatile way, losing L24.8 to L940.80.

STOCKHOLM had its individual ups and downs as the Affärsvärlden General index rose another 12.3 to 1,800.9.

Banks and insurers were good, S-E-Banken gaining SKr1.80 to SKr61.50 on falling bond yields, and Trygg-Hansa SKr1 at SKr110 after a turnround from loss to profit; but SKF, the bearings group, receded SKr4 to SKr132 in spite of strong profits for 1995, and Ericsson B dipped SKr1.50 to SKr145.50 ahead of today's results.

**Written and edited by William Cochrane, Michael Morgan and John Pitt**

**FT-SE Actuaries Share Indices — THE EUROPEAN SERIES**

| Feb 7 Hourly changes | Open | 10.30 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | Close |
|---|---|---|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1558.00 | 1557.71 | 1557.93 | 1558.82 | 1558.22 | 1559.31 | 1558.78 | 1557.63 |
| FT-SE Eurotrack 200 | 1668.30 | 1668.47 | 1668.79 | 1667.48 | 1668.35 | 1665.33 | 1665.05 | 1663.79 |

| | Feb 6 | Feb 5 | Feb 2 | Feb 1 | Jan 31 |
|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1551.45 | 1548.16 | 1558.84 | 1570.74 | 1559.54 |
| FT-SE Eurotrack 200 | 1662.29 | 1658.34 | 1675.99 | 1670.62 | 1662.09 |

Base 1000 (26/10/90). Highday: 100 - [illegible]; 200 - [illegible] Lowday: 100 - [illegible]; 200 - [illegible]

# Caracas rises 4% to record high

Caracas finished at another record high, spurred on by foreign interest in the equity market. The IBC index came to rest 4 per cent up at 2,410.29, its best close since the index started in January 1994.

MEXICO CITY was down by more than 1 per cent in midsession trading, largely as a result of further weakness in Telmex. The IPC index surrendered 32.63 to 3,015.46.

On Tuesday, Telmex reported a 22 per cent downturn in its net profits for 1995 compared to the same 1994 period. Analysts said that the results from the telephone utility were at the bottom end of expectations.

SAO PAULO was modestly weaker at midsession as the market awaited a vote later in the session on the government's pension reform. The Bovespa index was off 412.77 at 53,128.

Analysts commented that a reform of the pension system was necessary to save the welfare system from bankruptcy, as well as help the federal government balance its books.

● ING Barings said yesterday that it had increased its year-end target for the Bovespa index to 67,500 from 56,000 ahead of an expected reduction in deposit rates.

**EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES**

| Market | No. of stocks | Dollar terms: Feb. 2 1996 | % Change over week | % Change on Dec '95 | Local currency terms: Feb. 2 1996 | % Change over week | % Change on Dec '95 |
|---|---|---|---|---|---|---|---|
| Latin America | (248) | 532.93 | +4.4 | +13.0 | | | |
| Argentina | (31) | 886.08 | +0.5 | +10.9 | 543,487.52 | +0.6 | +10.8 |
| Brazil | (68) | 373.80 | +9.9 | +22.4 | 1,368.03 | +8.9 | +23.2 |
| Chile | (43) | 740.62 | +2.9 | -1.1 | 1,217.03 | +2.1 | -0.2 |
| Colombia[1] | (15) | 609.13 | +8.9 | +1.9 | 1,101.47 | +8.1 | +5.0 |
| Mexico | (65) | 525.41 | +0.7 | +15.8 | 1,677.72 | +0.4 | +11.4 |
| Peru[2] | (21) | 214.59 | +5.5 | +8.8 | 308.67 | +5.0 | +11.1 |
| Venezuela[3] | (5) | 307.99 | -3.4 | -7.9 | 2,801.27 | +4.0 | +7.3 |
| Asia | (631) | 249.40 | +2.2 | +7.4 | | | |
| China[4] | (18) | 59.56 | -0.1 | +10.1 | 62.50 | -0.1 | +10.0 |
| South Korea[5] | (145) | 124.31 | +2.4 | -1.3 | 127.71 | +1.8 | -0.5 |
| Philippines | (35) | 293.92 | +1.2 | +13.2 | 371.58 | +1.2 | +13.0 |
| Taiwan, China[6] | (83) | 104.45 | -2.9 | -7.4 | 107.76 | -2.9 | -8.7 |
| India[7] | (76) | 78.94 | +8.5 | -1.8 | 103.03 | +10.9 | +2.7 |
| Indonesia[8] | (44) | 123.55 | +4.4 | +14.5 | 156.29 | +4.3 | +14.7 |
| Malaysia | (123) | 293.19 | +2.0 | +8.1 | 276.18 | +1.9 | +8.7 |
| Pakistan[9] | (25) | 265.25 | +0.2 | +8.3 | 413.14 | +0.4 | +9.6 |
| Sri Lanka[10] | (5) | 111.37 | +2.7 | +7.0 | 129.61 | +2.7 | +7.2 |
| Thailand | (72) | 413.46 | +2.5 | +10.0 | 415.93 | +2.5 | +10.6 |
| Euro/Mid East | (238) | 161.96 | +1.8 | +14.4 | | | |
| Greece | (47) | 252.01 | -0.2 | +4.3 | 418.44 | -0.8 | +8.1 |
| Hungary[11] | (9) | 139.83 | +10.9 | +42.1 | 238.70 | +10.7 | +47.5 |
| Jordan | (8) | 183.89 | +1.0 | -0.4 | 274.42 | +1.0 | -0.4 |
| Poland[12] | (22) | 568.17 | +5.1 | +33.3 | 911.71 | +4.9 | +37.7 |
| Portugal | (26) | 127.74 | +5.1 | +10.3 | 135.21 | +4.3 | +13.7 |
| South Africa[13] | (63) | 289.35 | +0.3 | +12.1 | 219.14 | +0.1 | +12.3 |
| Turkey[14] | (54) | 143.43 | +9.7 | +37.3 | 4,290.25 | +11.4 | +43.5 |
| Zimbabwe[15] | (5) | 298.36 | +2.6 | +8.6 | 415.01 | +3.1 | +10.1 |
| Composite | (1117) | 305.76 | +2.8 | +10.9 | | | |

*Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Aug 2 1993; (15)July 2 1993.*

**A shift in emerging markets investment strategy is likely to be more evident this year, writes John Pitt. Lehman Brothers, for instance, suggests that a "selective country approach may prove to be more rewarding [during 1996] than taking large regional bets as the liquidity, reform and earnings growth picture worldwide is extremely varied". The US brokerage notes that Asia is likely to outperform Latin America in the first half of the year on the basis that the former region is influenced mainly by excess liquidity, while the latter is generally driven by economic reforms and sovereign risk. Asia, thereby, will gain the initiative as US interest rates come down further throughout the course of the year, the broker forecasts.**

**● Foreign & Colonial wonders if Mexico has seen the start of "a virtuous circle". The London-based fund manager observes that the country's equity market was one of the best performers during January, when it rose by 14 per cent in dollar terms. "Although economic growth is expected to have declined by 7 per cent in 1995," says F&C, "there are comforting signs that the economy is beginning to turn around . . . nevertheless, the speed of the recovery will remain subject to investor confidence which could all too easily be shaken by renewed volatility in interest rates and the peso, as well as by unsavoury political developments. If the economy can continue to show progress in these areas, 1996 may see the virtuous circle completed."**

ASIA PACIFIC

# Nikkei average closes at 17-month peak

### Tokyo

High-tech stocks followed Wall Street, foreign buying returned and the Nikkei average closed at a 17-month peak, *writes Emiko Terazono in Tokyo.*

The 225-share index was finally 192.34 ahead at 20,943.49 after moving between 20,642.12 and 21,039.27. A fall in the futures market in early trade was offset by the rebound in the dollar. Foreign investors bought banking issues, and an intra-day rebound in futures also prompted arbitrage linked purchases.

Volume came to 883m shares, against 590m. The Topix index of all first section stocks rose 19.24 or 1.2 per cent to 1,622.14 and the Nikkei 300 by 3.86 or 1.3 per cent to 302.91. Gainers led losers by 696 to 384, with 143 issues unchanged.

In London the ISE/Nikkei 50 index put on 3.62 at 1,426.07.

Wall Street gains in high-technology stocks boosted electricals and semiconductor related issues. Foreigners bought Sony, which rose Y20 to Y6,520, and NEC, which advanced Y30 to Y1,290.

Nikon, the precision manufacturer, moved ahead Y90 to Y1,420 on active purchases by foreigners. Investors were bullish about the company's earnings since it was expected to benefit from strong demand for its semiconductor manufacturing equipment. Among other semiconductor related stocks, Tokyo Electron climbed Y150 to Y4,130 and Advantest Y180 to Y5,500.

Kanebo, the cosmetics maker, was the most active issue of the day, firming Y2 to Y372 on expectations that it would expand its operations into the semiconductor manufacturing business.

Fishing stocks, regarded as laggards, were bought by individuals and other short term tradars. Nippon Suisan rose Y16 to Y2,370 and Maruha appreciated Y12 to Y415.

Banks rebounded as foreigners calculated that the negative effects of the *jusen* bailout negotiations had been discounted. Sakura Bank gained Y40 at Y1,230 and Mitsubishi Bank put on Y70 at Y2,370.

In Osaka, the OSE average moved up 207.23 to 22,524.17 in volume of 187.8m shares.

### Roundup

Worries abont the military threat from mainland China were put aside in TAIPEI, which recovered 1.5 per cent on buying triggered by the appearance of funds believed to be linked to the ruling Nationalist party.

Earlier in the week, Liu Tai-ying, chairman of the ruling party's business management committee, admitted that the party had purchased shares to support tbe market, adding that it would buy and not sell stocks before the presidential elections on March 23.

The weighted index rose 68.61 to 4,758.83, up from a day's low of 4,672.67, in turnover of T$18.4bn.

HONG KONG picked up after an early, sharp reaction to a placement of 100m shares by Cbaung Kong, closing narrowly mixed as foreign funds continued to flow in. The Hang Seng index lost just 2.79 at 11,388.59, after 11,279.54. Turnover ballooned to HK$12.6bn, including the HK$5.3bn Cheung Kong placement.

Cheung Kong ended 75 cents down at HK$54.50, after a day's low of HK$53.25 and the placement price of HK$53. Its Hutchison associate held at HK$52.

The H share index of the 18 China-incorporated groups listed in Hong Kong continned to benefit from buying of recent laggards. It advanced 10.73 or 1.2 per cent to 932.39.

KARACHI opened a new account, and stocks linked to global depositary receipts (GDRs) led the broad market higher due to a weakening of the rupee against the dollar. The KSE 100 index added 35.68 or 2.2 per cent at 1,687.81.

MANILA had what brokers described as a long delayed technical correction after a steep rise in recent weeks, the composite index dropping 32.09 or 1.1 per cent to 2,882.94.

SINGAPORE saw profit-taking, although analysts forecast that the market was ripe for a further advance after its current consolidation. The Straits Times Industrial index finished 1.78 off at 2,491.93.

IPC, the computer maker, slipped 2.5 cents to 83.5 cents on reports that it had shut its retail operations in the US.

SEOUL edged forward in rangebound trade and the composite index ended 2.56 higher at 883.77. Petrochemicals and banks were among the day's leaders.

LG Chemical gained Won300 at Won14,000 in response to rising petrochemical products prices and an expected increase in exports to China.

BOMBAY bounced after Tuesday's sharp fall, the BSE-30 index closing 47.60 better at 3,202.49.

SHANGHAI's hard currency B share index was weak on selling of Pudong shares by investors concerned about 1995 results. Tha index shed 0.477 to 50.466. SHENZHEN's B index picked up 0.58 to 60.78, primarily due to a 14.7 per cent rebound to HK$4.30 in Guangdong Electric.

**FT/S&P ACTUARIES WORLD INDICES**

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | TUESDAY FEBRUARY 6 1996: US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | MONDAY FEBRUARY 5 1996: US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX: 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (81) | 187.01 | -0.3 | 189.62 | 131.47 | 150.76 | 173.61 | -0.2 | 3.86 | 187.61 | 191.13 | 131.31 | 150.95 | 173.90 | 199.13 | 157.95 | 162.51 |
| Austria (26) | 189.36 | 0.7 | 182.26 | 126.37 | 144.89 | 144.72 | 0.9 | 1.49 | 188.06 | 181.92 | 124.98 | 143.67 | 143.49 | 199.26 | 167.48 | 169.20 |
| Belgium (34) | 214.89 | -0.2 | 206.93 | 143.47 | 164.50 | 160.43 | -0.1 | 3.26 | 215.49 | 208.43 | 143.19 | 164.61 | 160.60 | 215.81 | 166.86 | 168.24 |
| Brazil (26) | 167.14 | 0.0 | 160.88 | 111.54 | 127.89 | 300.96 | 0.0 | 1.56 | 167.08 | 161.60 | 111.02 | 127.62 | 300.83 | 170.25 | 86.06 | 144.65 |
| Canada (101) | 157.65 | 0.6 | 151.74 | 105.20 | 120.63 | 156.94 | 0.5 | 2.39 | 156.69 | 151.55 | 104.11 | 119.60 | 156.21 | 157.65 | 125.64 | 127.16 |
| Denmark (33) | 298.82 | -0.1 | 288.57 | 200.07 | 229.41 | 232.25 | 0.1 | 1.41 | 300.01 | 290.16 | 199.35 | 229.17 | 232.03 | 302.74 | 252.41 | 255.32 |
| Finland (24) | 187.67 | 1.0 | 180.92 | 125.43 | 143.83 | 178.74 | 1.2 | 1.79 | 186.06 | 179.99 | 123.66 | 142.14 | 178.60 | 276.11 | 171.13 | 190.33 |
| France (99) | 185.72 | 0.2 | 178.75 | 123.93 | 142.11 | 147.34 | 0.2 | 3.09 | 185.37 | 179.30 | 123.19 | 141.60 | 147.00 | 191.17 | 161.53 | 163.80 |
| Germany (60) | 170.54 | 0.2 | 164.15 | 113.81 | 130.49 | 130.49 | 0.3 | 1.89 | 170.24 | 164.66 | 113.12 | 130.04 | 130.04 | 171.28 | 142.25 | 142.42 |
| Hong Kong (56) | 444.88 | -0.7 | 428.19 | 296.87 | 340.40 | 441.59 | -0.7 | 3.21 | 448.01 | 433.33 | 297.69 | 342.22 | 444.68 | 448.01 | 317.10 | 317.10 |
| Ireland (16) | 259.03 | 0.4 | 249.31 | 172.86 | 198.20 | 229.66 | -0.1 | 3.34 | 257.94 | 249.49 | 171.39 | 197.03 | 229.77 | 262.70 | 205.44 | 210.56 |
| Italy (59) | 78.64 | -0.5 | 75.60 | 52.48 | 60.17 | 92.38 | -0.3 | 1.62 | 79.05 | 76.46 | 52.53 | 60.38 | 92.63 | 82.71 | 65.46 | 61.13 |
| Japan (482) | 152.87 | -0.3 | 147.14 | 102.02 | 116.97 | 102.02 | 0.1 | 0.75 | 153.30 | 148.26 | 101.66 | 117.10 | 101.36 | 164.62 | 136.95 | 148.89 |
| Malaysia (107) | 526.53 | 0.3 | 506.79 | 351.37 | 402.99 | 515.79 | 0.2 | 1.62 | 524.92 | 507.72 | 348.80 | 400.97 | 514.71 | 581.96 | 425.77 | 469.23 |
| Mexico (18) | 1180.88 | -2.5 | 1136.59 | 788.02 | 903.57 | 9638.15 | -1.8 | 1.44 | 1211.63 | 1171.93 | 805.10 | 925.53 | 9809.67 | 1237.14 | 847.81 | 1109.65 |
| Netherland (19) | 276.22 | 0.5 | 265.80 | 184.33 | 211.38 | 207.80 | 0.9 | 3.14 | 274.93 | 265.92 | 182.69 | 210.01 | 206.56 | 280.49 | 218.14 | 219.43 |
| New Zealand (14) | 80.55 | -0.1 | 77.53 | 53.75 | 61.63 | 63.24 | 0.0 | 4.80 | 80.88 | 78.02 | 53.60 | 61.62 | 63.24 | 85.49 | 72.27 | 73.22 |
| Norway (33) | 231.49 | 0.0 | 222.91 | 154.48 | 177.13 | 202.02 | 0.1 | 2.17 | 231.56 | 223.97 | 166.86 | 176.88 | 201.91 | 243.79 | 202.79 | 214.34 |
| Singapore (44) | 459.56 | -1.2 | 442.34 | 306.69 | 351.66 | 299.58 | -1.2 | 1.34 | 465.21 | 449.97 | 309.12 | 355.35 | 303.16 | 465.21 | 342.37 | 350.91 |
| South Africa (45) | 432.44 | -0.6 | 416.22 | 288.57 | 330.89 | 344.45 | -0.6 | 3.41 | 435.04 | 420.79 | 289.07 | 332.31 | 346.49 | 437.75 | 301.17 | 304.67 |
| Spain (37) | 165.45 | 0.4 | 159.24 | 110.41 | 126.59 | 155.48 | 0.2 | 3.90 | 164.79 | 159.39 | 109.50 | 125.88 | 155.06 | 168.91 | 124.10 | 133.30 |
| Sweden (47) | 306.88 | -0.2 | 295.37 | 204.79 | 234.81 | 318.89 | 0.9 | 1.88 | 307.40 | 297.33 | 204.26 | 234.81 | 318.13 | 324.31 | 232.23 | 242.93 |
| Switzerland (39) | 224.59 | 0.8 | 218.16 | 149.87 | 171.85 | 167.29 | 0.9 | 1.80 | 222.84 | 215.54 | 148.07 | 170.22 | 165.86 | 239.55 | 165.55 | 165.91 |
| Thailand (46) | 193.95 | 0.2 | 185.67 | 129.42 | 148.40 | 190.03 | 0.1 | 1.67 | 193.46 | 187.12 | 128.56 | 147.78 | 189.74 | 193.95 | 130.15 | 156.07 |
| United Kingdom (205) | 232.53 | 0.5 | 223.81 | 155.17 | 177.93 | 223.81 | 0.0 | 4.15 | 231.34 | 223.76 | 153.72 | 178.71 | 223.75 | 232.53 | 192.74 | 193.56 |
| USA (632) | 263.30 | 0.8 | 253.42 | 175.71 | 201.47 | 263.20 | 0.8 | 2.17 | 261.26 | 252.72 | 173.62 | 199.58 | 261.26 | 263.30 | 196.84 | 197.23 |
| Americas (779) | 240.54 | 0.7 | 231.51 | 160.52 | 184.05 | 202.20 | 0.7 | 2.19 | 238.79 | 230.96 | 158.67 | 182.40 | 200.72 | 240.54 | 180.00 | 181.42 |
| Europe (731) | 203.61 | 0.3 | 195.87 | 135.89 | 155.72 | 175.99 | 0.3 | 3.02 | 202.81 | 196.17 | 134.76 | 154.92 | 175.52 | 204.32 | 169.48 | 169.81 |
| Nordic (137) | 275.19 | 0.0 | 264.87 | 183.64 | 210.57 | 244.03 | 0.7 | 1.91 | 275.13 | 266.11 | 182.82 | 210.19 | 242.35 | 295.02 | 222.22 | 232.71 |
| Pacific Basin (833) | 166.34 | -0.3 | 160.10 | 111.00 | 127.28 | 114.18 | 0.0 | 1.16 | 166.85 | 161.38 | 110.87 | 127.45 | 114.11 | 171.87 | 145.95 | 154.80 |
| Euro-Pacific (1564) | 181.72 | -0.0 | 174.60 | 121.27 | 139.05 | 137.63 | 0.1 | 2.03 | 161.73 | 175.77 | 120.75 | 138.81 | 137.43 | 183.39 | 158.37 | 160.78 |
| North America (733) | 256.76 | 0.8 | 247.12 | 171.34 | 196.46 | 258.14 | 0.8 | 2.16 | 254.60 | 246.45 | 169.31 | 194.63 | 254.20 | 256.76 | 192.52 | 192.89 |
| Europe Ex. UK (526) | 183.26 | 0.2 | 176.39 | 122.30 | 140.23 | 149.21 | 0.4 | 2.58 | 182.82 | 176.83 | 121.48 | 139.65 | 148.61 | 184.81 | 152.75 | 153.13 |
| Pacific Ex. Japan (351) | 290.70 | -0.4 | 279.80 | 193.99 | 222.44 | 255.01 | -0.4 | 2.60 | 291.91 | 282.34 | 193.96 | 222.98 | 256.01 | 291.91 | 228.45 | 230.04 |
| World Ex. US (1756) | 183.65 | 0.0 | 176.76 | 122.55 | 140.52 | 142.69 | 0.1 | 2.07 | 183.68 | 177.65 | 122.05 | 140.31 | 141.91 | 184.71 | 156.72 | 161.39 |
| World Ex. UK (2183) | 205.75 | 0.3 | 198.03 | 137.30 | 157.43 | 172.30 | 0.4 | 1.91 | 205.14 | 198.42 | 136.31 | 156.70 | 171.55 | 205.75 | 168.82 | 169.99 |
| World Ex. Japan (1906) | 238.78 | 0.5 | 229.83 | 159.34 | 182.71 | 224.82 | 0.5 | 2.52 | 237.60 | 229.82 | 157.88 | 181.50 | 223.75 | 238.75 | 186.80 | 187.20 |
| The World Index (2388) | 208.13 | 0.8 | 200.33 | 138.89 | 160.26 | 176.98 | 0.4 | 2.11 | 207.48 | 200.68 | 137.66 | 158.49 | 176.26 | 208.13 | 169.20 | 172.08 |


Latest prices were unavailable for this edition. Market closed 6/2/96: New Zealand.

هكذا امنه الأصل

July 1995
**...nicipality of Amsterdam**
Sale of Kabeltelevisie Amsterdam BV to Philips Media Networks BV and West International BV
Financial Adviser
UBS Limited

December 1995
**National Grid Group**
Global Offering of 181,000,000 Ordinary Shares at 208p each
Joint Global Co-ordinator
Union Bank of Switzerland

March 1995
**National Power PLC and PowerGen plc**
Global Offering of 492.3 million Shares of National Power at 486p each 313 million Shares of PowerGen at 522p each
International Manager
UBS Limited

February 1995
**Nokia Corporation**
£166 million, early redemption of ICL preference shares
Financial Adviser
UBS Limited

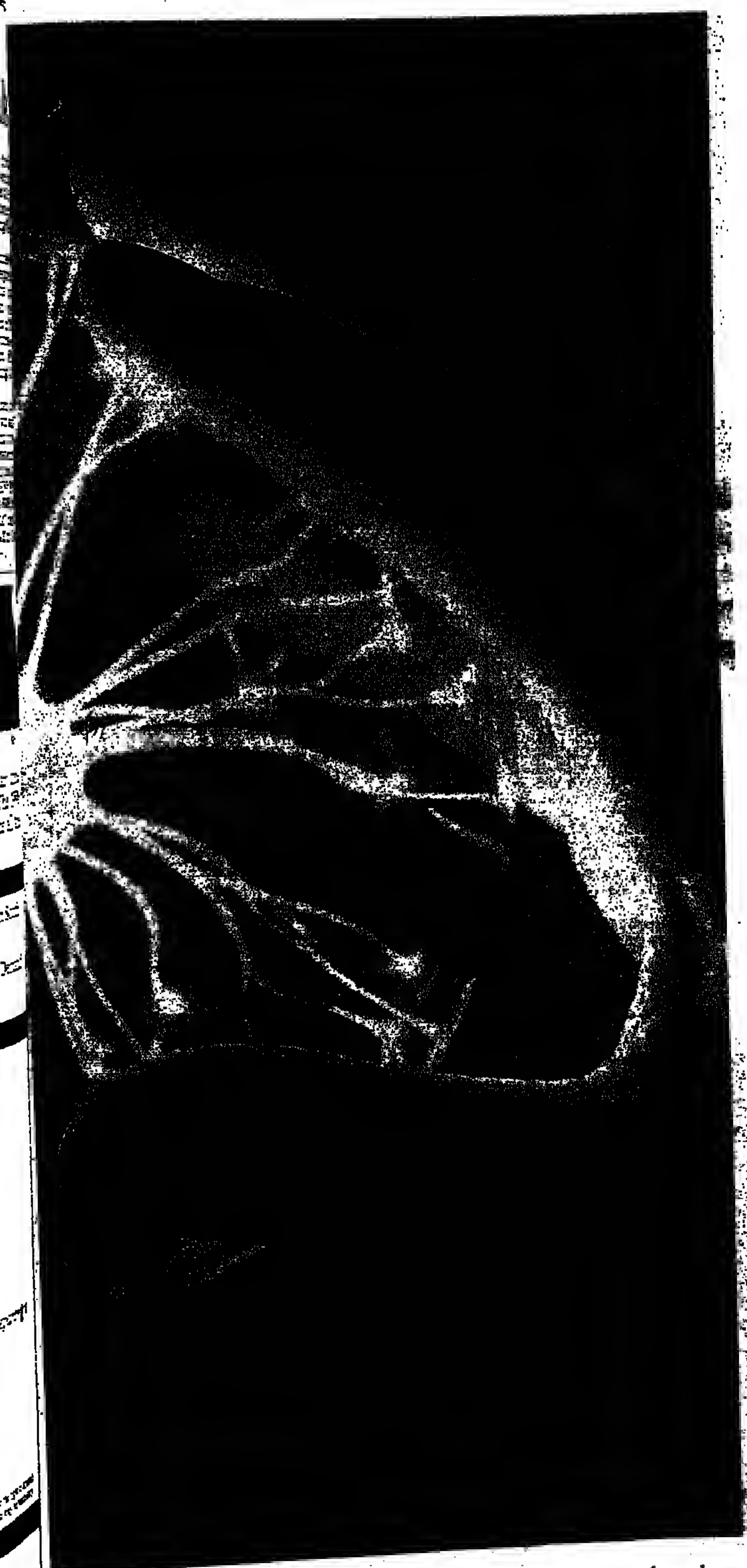
June 1995
**Portucel Industrial**
Offering of 34,800,000 Ordinary Shares at PTE 1,040 each
International Joint Lead Manager
UBS Limited

September 1995
**Swiss Telecom PTT**
Independent Valuation Opinion for Swiss Telecom PTT in Connection with the Proposed Acquisition of a Strategic Stake in Belgacom S.A.
Valuation Adviser
UBS Limited

December 1995
**UIC/SOFAL**
FF 1.7 billion Securitisation
Sole Arranger
Union Bank of Switzerland

...nnections matter,

...with UBS.



May 1995
**Nokia Maillefer S.A. Switzerland**
Secondary placement of 180,000 bearer shares at SFr 610 each
Lead Manager and Sole Underwriter
Union Bank of Switzerland

June 1995
**Portugal Telecom**
Offering of 51,800,000 Ordinary Shares at PTE 2,800 each
Joint Global Co-ordinator
Union Bank of Switzerland

December 1995
**TAG Heuer S.A.**
SFr 415 million, Acquisition Financing Facilities
Lead Arranger and Facility Agent
Union Bank of Switzerland

December 1995
**Ulysses Securitisation plc**
Advising the NTMA in Connection with IR£ 140 million Bullet Transaction
Lead Manager
UBS Limited

September 1995
**NV Bank Nederlandse Gemeenten**
SFr 150 million, Bonds 1995-2001
Lead Manager
Union Bank of Switzerland

November 1995
**Rentenanstalt/Swiss Life**
SFr 634 million, Convertible Bonds Issue due 1998
Adviser and Sole Underwriter
Union Bank of Switzerland

June 1995
**Tauernkraftwerke AG**
SFr 130 million, Notes 1995-1998
Joint Book Runner
Union Bank of Switzerland

June 1995
**Unilever NV**
US$200 million, Eurobond due 2005
Joint-Lead Manager
UBS Limited

June 1995
**Oesterreichische Postsparkasse PSK**
SFr 100 million, Bonds 1995-2005
Lead Manager
Union Bank of Switzerland

October 1995
**Rheinische Hypothekenbank**
DEM 2.5 billion, Bearer Bonds (Öffentliche Pfandbriefe) of 1995-2001
Joint-Lead Manager and Joint Book Runner
Union Bank of Switzerland

September 1995
**Telefónica**
Global Offering of 26,135,111 Shares at PTAs 1,637 each
Continental European Lead Manager
UBS Limited

August 1995
**Unitech**
Placement of 17,240,650 Ordinary Shares at £4.40 each on behalf of Saurer Ltd
Sole Book Runner and Co-ordinator
UBS Limited

November 1995
**Omnitel Pronto Italia S.p.A.**
Lit. 1,800 billion, Project Financing Facilities
Arranger, Facility Agent and Security Trustee
Union Bank of Switzerland

June 1995
**The Royal Bank of Scotland plc**
£125 million, Subordinated FRNs due 2005
Lead Manager
UBS Limited

June 1995
**Telenor**
US$500 million, Revolving Credit Facility
Joint Arranger
Union Bank of Switzerland

February 1995
**USINOR SACILOR**
Privatisation FF 11.5 billion, International Offering
Co-Lead Manager
Union Bank of Switzerland

January 1995
**Oy Rettig Ab**
Sale of tobacco business Oy P.C. Rettig Ab to R.J. Reynolds Tobacco International, Inc.
Financial Adviser
UBS Limited

August 1995
**Sondel Società Nordelettrica S.p.A.**
Lit. 250 billion, Revolving Credit Facility
Sole Arranger
Union Bank of Switzerland

July 1995
**The Tetley Group**
£146 million, Acquisition Financing Facilities
Lead Arranger
Union Bank of Switzerland

July 1995
**Winterthur Finance Ltd**
SFr 563 million, Convertible Bond Issue, 1995-1998
Lead Manager
Union Bank of Switzerland

August 1995
**Pearson plc**
£325 million, Multi-Option Facility
Joint Arranger
Union Bank of Switzerland

October 1995
**South Wales Electricity plc**
£150 million, Eurobond Issue due 2020
Sole Lead Manager
UBS Limited

September 1995
**Thomson S.A.**
US$400 million, Revolving Credit Facility
Joint Arranger
Union Bank of Switzerland

January 1995
**Yorkshire Electricity Group plc**
£200 million, Eurobond due 2020
Lead Manager
UBS Limited

...across European borders, but also across the whole spectrum of products.

...ss.

...sons why, when the outcome is crucial, you're in safe hands with UBS.

June 1995
**Philips Electronics N.V.**
US$1 billion, Revolving Credit Facility
Sole Arranger
Union Bank of Switzerland

July 1995
**South West Water**
£70 million, Acquisition of Blue Circle Waste Management
Sole Financial Adviser
UBS Limited

SUBSG UBS

All these transactions appear as a matter of record only.
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NEWS: UK

# Videotron to sell stake in cable company

By Robert Gibbens in Montreal and Raymond Snoddy in London

The UK cable industry seems set for further consolidation following the announcement yesterday that Videotron, Canada's third biggest cable television group, is seeking to sell its 56 per cent stake in Videotron Holdings, the British cable company.

The move is a fresh blow to an industry which has been disappointed with its performance over the past two years. The percentage of subscribers to cable television has been stuck at around 21 per cent of those households which would be able to receive it, although cable telephone subscriptions have been rising at a greater speed.

Videotron Holdings is the seventh largest UK cable operator with franchises covering 1.4m homes. The company said last night it had 153,200 subscribers.

Videotron has retained Goldman Sachs International, the New York-based investment bank, as financial adviser and will sell if an attractive offer is made.

One potential candidate to buy the Videotron stake in franchises in west and south London and Southampton is Bell Cablemedia, the third largest cable operator in the UK, which has a 26 per cent stake in Videotron Holdings. The public holds the remaining 18 per cent stake.

The two largest cable operators in the UK – TeleWest, which last year paid £679m ($1.025bn) for SBC Communications, the fifth largest cable operator, and Nynex CableComms – are also likely to be interested in Videotron.

Mr Andre Chagnon, Videotron chairman and major shareholder, said he wanted to realise the value created in the eight-year-old British business for shareholders.

"Now is the time to explore alternatives ... given the consolidation in the European telecommunications market," Mr Chagnon said.

Videotron is also likely to require capital to develop its main north American markets as a result of expected telecommunications deregulation in Canada.

Mr Chagnon said he wanted to concentrate his group's resources on north America, focusing especially on expanding its US cable-telephony operations.

Videotron moved into British cable TV in 1988 after finding the French communications sector over-regulated. Bell Cablemedia became a strategic partner in 1991 as telecommunications services were added.

For the nine months ending May 1995 Videotron Holdings reported revenues of £41.8m and posted a net loss of £7.76m, according to a prospectus for a US dollar note issue managed by Merrill Lynch in New York.

Up to that point Videotron Holdings had invested £370m in its systems in London and Hampshire.

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# Rival towns cry foul in soccer tournament row

By Chris Tighe in Newcastle

The first off-pitch brawl of the 1996 European Football Championship has ended in victory for Scarborough's tourist industry to cries of "bribe" from rival Darlington.

Scarborough and Darlington in northern England have been fighting each other for the prestige – and more importantly, the spin-off business – of hosting the Bulgarian football team and its entourage during this summer's Euro 96 tournament. Scarborough believes the team's stay could attract up to 5,000 Bulgarian visitors, generating between £4m and £5m ($6.04m-$7.55m) for Scarborough.

Its borough council's leisure and amenities committee will be today asked to approve an offer of £25,000 towards the Bulgarian national team's costs including £20,000 towards accommodation.

The North Yorkshire coastal resort – marketing slogan: "We've been expecting you" – says it has had confirmation that the Bulgarian Football Union has selected a hotel at nearby Ravenscar as the base for its team.

Darlington had expected to welcome the Bulgarians before Mr Don Robinson, a Scarborough businessman with Bulgarian links, stepped in to lobby for his town. Darlington, which is conveniently located for the main road to Newcastle and Leeds where the team will play its matches, is not amused. "We are not in the business of bribes," said council leader Mr John Williams. He added: "It's my firm belief that the Bulgarian Football Team will rue the day they made this decision."

Scarborough's director of tourism and amenities, Mr David James, rejects the suggestion that the Bulgarians had been bribed or unfairly subsidised. "An awful lot of people in this country are competing to get them here," he said.

Scarborough's case was promoted by Mr Robinson, a former chairman of Hull City and Scarborough football clubs, who has leisure business interests in Bulgaria.

For Scarborough, Mr Robinson said, the team's presence would be a terrific promotional boost. "People will read that and think, there's a go-ahead town."

However the Football Association, which is hosting the tournament, is unconvinced that Scarborough, whatever the resort's appeal, will enhance the Bulgarians' footballing performance. The players will have to spend at least two hours travelling by coach to Newcastle or Leeds for their matches.

Of the 14 overseas teams in Euro '96, only the Bulgarians declined the FA's help in sorting out their accommodation.

# Optimism over IRA ceasefire

By Jimmy Burns

The Northern Ireland peace process has some way to run and there is no immediate danger of the Irish Republican Army ceasefire falling apart because of internal splits, according to British security sources.

The view is thought to be shared by the security service MI5 and senior police officers with anti-terrorist expertise such as Mr William Taylor, commissioner of the City of London Police.

The assessment is thought to be behind the British decision to play down comments made last weekend by former US senator George Mitchell, head of the international body on decommissioning paramilitary weapons. He suggested that there was a danger of a split within the IRA and a return to violence because of grassroots republican unease about the peace process.

According to security sources, the IRA and the Sinn Féin leadership have invested in getting their representatives to roundtable negotiations, and are confident of ensuring the adherence of their members to the ceasefire while talks with the government continue.

The sources believe the IRA was not behind a gun attack last Saturday, during which 57 shots were fired at the home of a policeman in County Tyrone. They blame the action on the Irish National Liberation Army, a small breakaway from the IRA which is thought to lack the military capacity to disrupt the peace process. Security officials stress they are not complacent about Northern Ireland though they remain, on balance, optimistic.

They share the public view reiterated recently by Northern Ireland police chief Sir Hugh Annesley that the IRA retained as its most likely military option the renewal of a campaign on the British mainland.

Prior to the ceasefire, the IRA rated the propaganda value of an explosion in an English mainland city at least 10 times higher than that of a blast in Northern Ireland.

The terrorist organisation still regards its attacks on the City of London as among its military coups. "We believe that if the IRA were to resume its military activity it would be against a commercial target in a British city," a security source said.

The emphasis has switched to intensified intelligence tracking, spearheaded by MI5, of members of the IRA and their sympathisers on the mainland, some of whom have either moved across from the Ireland or been recruited since the ceasefire was declared. During the ceasefire the IRA has continued to carry out reconaissance missions while retaining access to its arms supplies.

One senior police source said yesterday: "The IRA still has the capability to move from a ceasefire position to an active position."

# Bank accounts for peace dividend

By John Murray Brown

Barclays, the UK clearing bank, is to open its first office in Northern Ireland in the latest sign of blossoming business confidence following the paramilitary ceasefires.

The bank confirmed that it would be up and running "in the first half of the year", providing trade finance, treasury and general lending services.

The bank's establishment of a local operation reflects the improved security environment and the growth of the economy, and is part of a larger rethink of Barclay's Irish strategy: for the first time, the bank is treating the island as one entity. Until now, its Northern Ireland business has been handled from Liverpool, while its Dublin operation was part of the BZW investment banking subsidiary. Now both operations will report to the UK clearing head office.

Barclays enters a banking scene dominated by National Westminster – through its locally owned Ulster Bank – and National Australian Bank, which owns Northern Bank. Also represented are the Irish Republic's Bank of Ireland and Allied Irish Banks through its purchase of Northern Ireland's TSB branches in 1991 – which was renamed First Trust Bank.

ICC, Ireland's state-owned specialist investment bank, has also announced plans for its first branch in the north, together with Equity Bank, a small merchant bank owned by Scottish institutions. In addition, First National and Irish Permanent, two of the republic's main building societies, have opened branches in Northern Ireland.

For banks, doing business in Northern Ireland involves special expense. The stringent requirements of fair employment legislation and the tighter money laundering regulations, which were introduced to thwart terrorist racketeering, all add to their costs.

But the attractions outweigh the disadvantages. Exports are growing faster than in the rest of the UK, and companies are increasingly looking for trade finance services. At the same time, inward investment activity is increasing.

The province's savings rate, at around 16 per cent, is twice that of the rest of the UK. This reflects the fact that one in three people in employment works for the state on salaries comparable with the UK mainland while mortgage rates and housing costs are lower. As a result, Northern Ireland has been viewed as a useful source of core deposits at a time when there is pressure on banks to improve their capital base.

"The peace process is obviously sucking in players, but the competition is going to be intense," says Mr John Trethowan of Northern Bank.

Barclays' new office would be expected to originate business as well as servicing UK customers with interests in Northern Ireland.

# 'Routine' problem grounds Boeings

By Michael Cassell, Business Correspondent

British Airways has been forced to ground temporarily two planes of its new Boeing 777 fleet because of technical problems with airflow seals on the aircraft.

The groundings follow earlier difficulties during the development programme for the General Electric GE90 engines installed in the BA aircraft, which came into service at the end of 1995.

But Boeing said that the fault did not involve the GE engine assembly and was not linked to previous problems. It described the seal problem as a "routine in-service issue".

BA said yesterday that "kiss" seals on the aircraft's engine thrust-reversers had deteriorated more quickly than had been expected and needed to be replaced.

One aircraft is already back in service and the other is expected to follow in a few days.

BA currently operates one other 777 and will take delivery of 12 more over the next two years. The airline uses the aircraft on routes from London to Dubai, Muscat, Paris and Cairo.

As a result of the latest problem, Boeing and the US Federal Aviation Administration have asked BA to inspect the seals every 250 flight hours.

GE said that the four GE90-powered 777s in service with BA and China Southern had logged more than 3,000 flight hours while meeting all technical expectations for performance, reliability and operability.

He added: "The engine has experienced no in-flight shutdowns or unscheduled removals and has maintained a 100 per cent dispatch reliability rate."

BA began operating the 777 in November after delivery from Boeing was delayed because of technical problems with the engines, which were subsequently modified. GE took the step of reassuring customers about the engines' performance and safety.

# Ministers given Iraq arms probe report

By John Kampfner and Jimmy Burns

Sir Robin Butler, the cabinet secretary, yesterday distanced himself from criticism of Sir Richard Scott, suggesting that the procedures for conducting Sir Richard's arms-for-Iraq inquiry had been agreed at the start by the government.

The head of the government machine was giving evidence to a Commons committee as 24 copies of Sir Richard's 2,000-page report were picked up by officials from the inquiry's headquarters and taken in a van to the Cabinet Office.

They were then distributed to a small group of ministers amid opposition concern that the government would use the week before the report's publication to give selective leaks to bolster its defence.

Miss Betty Boothroyd, Speaker of the House of Commons, suggested that ministers might give MPs more time to study Sir Richard's findings ahead of next Thursday's Commons statement by Mr Ian Lang, the trade and industry secretary. The current plan is for the Labour frontbench to receive a summary barely 30 minutes in advance of Mr Lang's Commons appearance.

Sir Richard stepped up his defence of his conduct, dismissing the latest onslaught from a former government ministers – Mr Douglas Hurd, the former foreign secretary.

If lawyers representing the witnesses had been allowed to cross-examine other witnesses, as has been demanded by senior Conservatives, the inquiry would never have finished its work. "We would still be there. It would have been indicrous, it would have been a circus," Sir Richard said. The tone of his remarks demonstrate a further deterioration in the already cool relations between a judge who is convinced of a concerted attempt to denigrate his work and a government that believes he has overreached himself.

Sir Richard Scott: dismissed onslaught from former government ministers

Mr Robin Cook, shadow foreign secretary who will lead the Labour attack, called for a full Commons debate within days of presentation of the report. He said Labour would use that to force the resignation of ministers most blamed. These are likely to be Mr William Waldegrave, Treasury chief secretary, and Sir Nicholas Lyell, attorney-general, both of whom have said they will "tough out" the criticism.

"It is not the fairness of the Scott inquiry that worries the Tories, but its thoroughness," Mr Cook said. "The evidence uncovered by Scott has revealed a cosy conspiracy designed not to serve the public interest but to protect the political interests of ministers."

Sir Robin, appearing before the cross-party public services committee, said he had made no public criticisms of the conduct of the inquiry and had no intention of doing so.

The government, he said, had left procedural matters to Sir Richard, but subsequently had the opportunity to comment on them if it so wished. Sir Robin pointedly did not seize the chance to repudiate the inquiry's remit or conduct.

Earlier, Ms Liz Symons, general secretary of the First Division Association, which represents top government officials, called for officials criticised in the report to be given more time to prepare their case.

Sir Robin said the matter was still being discussed with the inquiry team. He also confirmed that officials who felt "that their reputation is seriously affected" could make personal statements. He added: "I expect that to be very rare."

# Cut in world's fishing fleet urged to conserve stocks

By Alison Maitland in London

The world's fishing fleet must be cut by 30 per cent to avert a widespread collapse of fish stocks, a committee of the House of Lords, the upper House of Parliament, warns today.

The science and technology committee says the cuts should be achieved by decommissioning – paying fishermen to leave the industry – which it sees as the fairest method available. Committee members call for much higher funding for decommissioning – including more than doubling Britain'a £50m ($77m) five-year programme.

Lord Perry, chairman of the sub-committee which carried out the inquiry into international fish conservation, said yesterday existing programmes had proved inadequate and that compulsion might be needed. He said: "Decommissioning has been voluntary. Small, less efficient ships have been decommissioned, so the fishing effort has gone up rather than down. They've got to decommission bigger ships."

UK fishermen are likely to agree with the committee that stocks must be saved but are likely to oppose drastic cuts in capacity if it means thay are forced out of business.

Lord Selborne, chairman of the science and technology committee, said a large problem was the failure of politicians and fisheries managers to be sufficiently influenced by scientific evidence.

He called for the creation of an inter-governmental panel of experts – on the lines of the panel on climate change – to push the global fishing crisis up the political agenda. The committee reprimands tha government for failing to act on conservation measures proposed hy fishermen and calls on scientists to be more forceful in their advice.

"In the UK and the EU at least, insufficient communication has allowed the present situation to develop in which ... everyone blamea everyone elsa." Meanwhile "overfisbing continues at a dangerous level".

The committee calls for a further tightening in European Union fish quotas. But it also argues they are ineffective and shnuld be replaced by other measures such as decommissioning.

It urges more use of "technical conservation measures" such as larger mesh sizes and panels that allow certain species or younger fish to escape. It wants a ban on fishermen discarding unwanted fisb et sea – 25 per cent of fish caught are thrown back.

The committee recommends further development of fish farming – with the emphasis on devising diets for farmed fish that do not depend on fish meal.

Lord Perry said the recommendations were directed at all countries: "Unilateral action will not work."

A drastic rescue plan for Britain's beleaguered abattoir industry, involving a 25 per cent cut in capacity in 12 months, was unveiled yesterday by the Meat and Livestock Commission, *Alison Maitland writes*.

The plan, if taken up by abattoirs, would reduce over-capacity from 45 per cent to 20 per cent in an effort to restore tha industry's profitability.

"Overcapacity has dogged the slaughter industry for too long," said Mr Don Curry, commission chairman. "This scheme should result in a healthier, more profitable industry with an improved capacity to make the investments necessary to compete effectively in the UK and overseas."

The commission said its proposals would mean redundancies among the 13,000 people employed in Britain's 491 abattoirs, although it did not estimate how many.

It said it would work to minimise the loss of skilled staff from plants that close by helping them to retrain and move to other jobs in the industry where possible.

Tha number of plant closures will depend on whether large or small slaughterhouses volunteer for closure. The amount of capacity targeted is tha equivalent of 600,000 cattle, 6m sheep and 3m pigs.

The proposals come too late for Buchan Meat Producers, a leading Scottish slaughtering and processing company, which went into liquidation saying fears over "mad cow disease" aggravated its trading difficulties.

UK NEWS DIGEST

# No need for BT price cap, regulator told

The Cable Communications Association has told Oftel, the industry regulator, it believes there is no further need for a rigid cap on British Telecommunication's retail prices.

The Association, which represents the cable industry, believes that the market for telecommunications services is approaching the point where competition will take over from price regulation of BT as the primary driver of improved benefits to consumers.

The CCA was responding to Oftel's December consultation paper on the regulation of BT's prices for the period from 1997 to the year 2002. At the moment, BT's prices are capped by a formula related to the retail price index. The cabla industry believes that developing competition will bring benefits to all consumers in the form of an increased range and quality of service as well as lower prices. "A further period of tight BT retail price capping could jeopardise the development of competition and restrict the spread of real consumer choice," the CCA argues. *Raymond Snoddy, London*

## Fresh railway company probe

A third railway company yesterday became involved in an investigation into allegations of wrong-doing – prompting renewed Labour criticism of the rail privatisation programme. Union Railways, the company which is promoting the construction of the £3bn ($4.6bn) Channel tunnel rail link, said it had begun an investigation into alleged "improper practices" in its procurement division. No-one has been suspended from work, the company said.

The revelation about the problems at Union Railways followed the disclosure that a member of staff had been suspended from the West Anglia Great Northern rail company after the discovery of alleged irregularities in ticket sales.

The problems at WAGN appeared to mirror an earlier incident at LTS Rail, the company which has won the London, Tilbury and Southend franchise. A director has resigned and five staff members have been suspended while investigations are carried out into allegations London Transport had been deprived of £30,000 in ticket revenues a month.

The investigation into Union Railways is being carried out by its auditors, Price Waterhouse. The company is owned by the government but will be transferred to the consortium which wins the bidding to build and operate the 68-mile link between St Pancras station in north London and the Channel tunnel entrance. *Charles Batchelor and George Parker*

## Mid-life unemployment doubles

Long-term unemployment among workers aged between 25 and 49 has doubled during the past five years, according to figures from the Unemployment Unit, an independent research organisation. The number of people in this age group unemployed for more than two years rose from 158,000 to 316,000 between October 1990 and October 1995.

In the south-east of England the percentage increase was particularly large, at 457 per cent.

A bill to be introduced in the Commons on Friday by Mr David Winnick, a Labour MP, proposes making it an offence to specify an upper age limit in job advertisements. The bill is opposed by the government. *Lisa Wood*

## Lloyd's recovery plan changes

Lloyd's of London is expected today to announce a rescheduling of its recovery plan's timatable. Votes of Lloyd's members expected in March are now expected to be held in May.

However Lloyd's executives are likely to emphasise that the main planks of the plan – which includes a settlement offer worth £2.8bn to lossmaking and litigating Names – remain on schedule. *Ralph Atkins, Insurance Correspondent*

## Weather claims cost $480m

Cold weather earlier this year resulted in home and business insurance claims costing £320m ($483m), according to figures published yesterday by the Association of British Insurers.

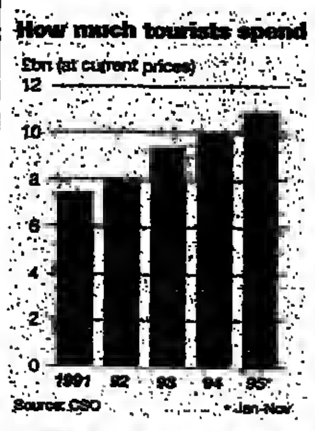
The total, to be spread among a number of insurers, is lower than initial estimates by industry experts. However the problems caused by the rapid thawing of freezing pipes will still rank among the most expensive incidents to hit UK insurers in recent years. *Ralph Atkins*

## Bushmills to be prosecuted

Bushmills, the whiskey distiller, is to prosecuted after a chemical spill killed thousands of fish in a salmon river.

The Northern Ireland company, which is the world's oldest licensed distillery, is beside the River Bush on the north Antrim coast where fish stocks were devastated by pollution last summer. The Department of the Environment yesterday confirmed it would prosecute. Summonses are expected later this week. *PA News*

## US visitors back in force




The number of American tourists to the UK is back to 1990 levels – the peak period before the Gulf war. Some 3.7m North American tourists visited the UK in the year to the end of November last year. The number dropped to 2.9m in 1991. The increase in American visitors helped to break the 1994 record for overseas visitors to Britain. An estimated total of 21.9m overseas visitors came to the UK in the first 11 months of 1995 – a 4 per cent increase on the 21m for the whole of 1994, the Central Statistical Office said yesterday. The visitors spent £10.8bn ($16.3bn) compared with £9.9bn in the whole of 1994. However, spending by UK residents abroad also increased to £14.7bn. This resulted in a trade deficit of £3.9bn in the year to November but represents an improvement on the £4.6bn deficit for the whole of 1994. *Scheherazade Daneshkhu, London*

Powers and practices that once gave the workforce international notoriety have gone – what will replace them?

# Trade unions suffer relentless decline

By Robert Taylor, Employment Editor

Britain's trade unions face an uncertain future. Since the country's last Labour government left office in 1979, they have endured an unrelenting decline in their power and influence. From being an Estate of the Realm, they have been driven onto the margins of public life. Fewer than a third of employees now belong to a union compared with well over half in 1980. The proportion of workers whose pay is negotiated through collective bargaining is now well below half.

While few employers outside the printing and oil industries have pursued aggressive derecognition campaigns, unions have found it very difficult to make inroads into new plants. The spread of non-unionism reflects the lack of interest by a growing number of employers in working with trade unions. But that is not the whole story. Union leaders admit their organisations make little appeal to younger workers, many of whom were infants when the first Thatcher government took office.

Yet employees do not lack reasons for seeking the protection and support provided by trade union membership. The growth of a deregulated and flexible labour market has undermined old securities in the workplace. Some big unions – notably the AEEU craft engineering union and the GMB general union – have adapted to meet the challenge of the new workplaces.

Agreements signed between unions and companies such as Rover, Ford, British Telecommunications, Nissan, Rolls-Royce, British Steel, ICI and Toshiba indicate a willingness to form strategic alliances with a commercial interest. Many of the old obstacles to productivity such as demarcation lines between crafts have gone, and there is fresh emphasis on the introduction of flexible work practices.

Union leaders – most notably Mr John Monks, general secretary of the Trades Union Congress that represents most trade unions at the national centre – talk constantly about the concept of social partnership. They emphasise the need for consensus and co-operation and repudiate adversarial attitudes towards employers. They believe agreements are required in the mutual interest of employers and employees because both have a stake in achieving best performance in the company.

Most unions in Britain accept there can be no return to the kind of negative power they enjoyed 20 years ago. They want instead to develop partnerships with companies, provide a range of professional services for their members and seek out coalitions of interest with other pressure groups.

The recent formal opening of the country's first trade union management centre at Cranfield Business School is an indicator of the enormous change that has been taking place in the oldest labour movement in the world. Many unions are making themselves more businesslike in their activities, throwing off their traditional reputation as warriors fighting a never-ending class conflict.

Union mergers and amalgamations are growing more popular to achieve economies of scale and to ensure survival in the face of falling income and rising spending pressures.

Two years ago the 1.3m strong Unison was formed, bringing three separate public service unions together in what is now the largest union in Britain. The AEEU engineering union has established a strong presence as the main union in private manufacturing. Last month a new civil service union was formed called PTC that brings together tax officers and executive officers in the same organisation.

In the next few years many more unions can be expected to seek salvation through pooling their activities. It is possible that by 2001 about four or five mega-unions will dominate a movement that used to be known for its bewilderingly large number of small organisations.

But the future of British trade unionism is more than ever bound up with the result of the country's next general election. If the Conservatives won an unprecedented fifth consecutive term, organised labour would be likely to plunge into greater decline. Many employers would begin to reappraise whether they needed to work with unions any more or if their employees should belong to outside organisations that seek to at least influence the way they operate.

But at the moment the Labour party enjoys a consistent wide lead in opinion polls. "New" Labour under the leadership of Mr Tony Blair has no desire to restore the party's close relationship with the unions, a situation beneficial to both sides. He has told union leaders he wants to operate a policy towards them of "fairness not favours". This has already produced an arms-length public position between the party and the TUC.

But behind the scenes both sides are keen to stay in touch and work in harmony on a future employment agenda for government. Indeed, despite some coolness and doubt, the trade unions know they need a Labour government to achieve their wide-ranging agenda. They are seeking and are likely to win:

● The introduction by law for the first time in Britain of a national minimum wage. An independent commission, made up of employers and union officials, will decide what the figure ought to be and government will then make up its mind.

● Laws to help workers to secure representation and trade unions to win recognition in the workplace. The detail has yet to be worked out even if the broad objectives are agreed. Mr Blair has already made it clear that the bulk of the industrial relations law passed by the Conservatives since 1980 will remain under a Labour government even if most trade unions find much of it hostile. Postal ballots to decide whether workers go on strike and to elect their union leaders will remain. So will existing laws that ban mass picketing and the closed shop.

● Signing up to the social chapter of the European Union.

● Moves to stimulate employment. These remain unclear but the unions will be keen to ensure there is an expansion in jobs.

● "Stakeholding". Here the trade unions would like to see a legal obligation for employers to be responsible not merely to shareholders but also to their employees and customers as well as the community in general. The Labour party seems unlikely at the moment to go all the way with what the TUC wants. However, all these issues amount to a substantial agenda for government if Labour come to power.

The Conservatives have already scorned many of these proposals and suggest that they would resurrect the union barons of the 1970s and threaten the country's new-found competitiveness. Opinion polls suggest that unions are no longer regarded by the majority of people in Britain so much as overmighty subjects who abuse their power but as underdogs that need sympathy and support.

It may be so but most union leaders acknowledge bitter memories of the past, of violent picket lines and unreasonable pay demands, may still be used against them in a closely fought general election. This is why Britain's trade unions are likely to keep as far out of the public gaze as is possible when the campaign begins.

# Lifeline from Brussels is eagerly grasped

By Robert Taylor

Trade unions are now among the most pro-European Union enthusiasts in the UK. Their leaders are even keen on the idea of economic and monetary union despite caution about it among their political allies in the Labour party.

But the EU has provided a lifeline for British unions after almost 17 years of decline in their power and influence. The visit of Mr Jacques Delors, the European Commission president, to the Trades Union Congress in 1988 symbolised the big change in TUC policy towards Europe. Until then most British unions had been at best ambivalent towards the EU. Since the UK first applied to join the European Economic Community in 1961, the TUC changed its mind about the issue six times. Doubts were eliminated by Mr Delors' vision of an EU with a central role for workers and unions.

The TUC has since become an effective force in the Brussels decision-making process. In 1993 – 20 years after the British government signed the Treaty of Rome, the TUC opened an office in the Belgian capital. It plays a significant role in co-ordinating the TUC's European strategy.

Mr David Lea, the TUC's assistant general secretary, is a pivotal figure in the European structure constructed by British trade unions. "Europe has given us a new and positive agenda at the TUC," he says. "It has also ensured we have a moral advantage over British employers. Union leaders have a greater understanding in depth and confidence to play a central role in the EU." His colleague, Mr Tom Jenkins heads the TUC's European unit and chairs the workers' group on the EU's economic and social committee.

The TUC has established respect as the oldest and – after the German union movement – the largest union body inside the EU. The TUC is a strong supporter of developing the so-called "social dialogue" between the European trade unions and Unice, the employers' organisation. Last year the dialogue led to agreement on minimum conditions for the provision of parental leave.

But the most effective results of the TUC's positive attitude to the EU lie in the way in which the UK government and the country's employers have been forced onto the defensive over the European social policy agenda. On a number of issues the TUC can claim to have made an advance. These include:

● The introduction of European consultative works councils under a directive. These bodies are being introduced in all companies that employ more than 1,000 workers inside the EU with 150 or more in at least two member states. The UK is not directly covered by the directive thanks to its opt-out from the social chapter of the EU's 1991 Maastricht treaty. But in practice UK companies are including their British employees in the works councils they have to establish for the rest of their European workforces.

● The acquired rights directive. Pressure from British unions led to favourabla legal judgements on that measure which have prevented employers from worsening the agreed terms and conditions of their workers as a result of a transfer of ownership. This has had a particular impact both on what has happened to workers affected by the privatisation of publicly owned agencies and companies and the consequences of compulsive competitive tendering for services.

● Tougher health and safety measures. A 1993 law in Britain provided employees for the first time with the legal right to refuse to work if they believe their working conditions are unsafe. This was a direct result of EU pressure. An employee will be able to secure unfair dismissal compensation from an employer before an industrial tribunal for taking action at work where they reasonably believe they are "in serious and imminent danger".

● Stronger protection for women at work. Women cannot be dismissed on grounds of pregnancy.

● Protection for part-time workers. The UK has vetoed the proposed EU part-time worker directive. But the UK government was compelled to accept – as a result of a House of Lords judgement – that part-time workers have to be covered by the same legal provisions as those working full-time when it comes to their rights in collective redundancies and protection from unfair dismissal.

The TUC is confident of substantial advances on its European social policy agenda if the Labour party wins the next British general election. Mr Blair has promised a Labour government will end the UK opt-out from the social chapter. If this happens, swift progress might be expected on implementing the EU's working time directive that sets a maximum of 48 hours a week unless a worker agrees otherwise, as well the posted workers directive to ensure a worker employed temporarily in another country will receive the same conditions of employment as a comparable worker from the host country.

The TUC also expects to achieve its demand that workers will be entitled to genuine consultation rights in cases of mass redundancies and business transfers in line with the 1994 European Court ruling. Already a bolder social affairs agenda is being drawn up by the TUC, the European unions and the Socialist majority in the European Parliament.

Social affairs commissioner Mr Padraig Flynn's new medium-term programme has been toughened up under pressure. It now includes a commitment to press for works councils in all national-based undertakings employing over 50 workers; a pro-labour clause in public contracts: measures to strengthen trade union freedoms and collective bargaining and the introduction of a minimum income.

All of this represents an important and probably irreversible shift in TUC thinking towards Europe. The flow of events appears likely to strengthen the concept of social partnership between employers and unions in the UK and bring them more into line with their continental equivalents.

## A long history of labour disputes

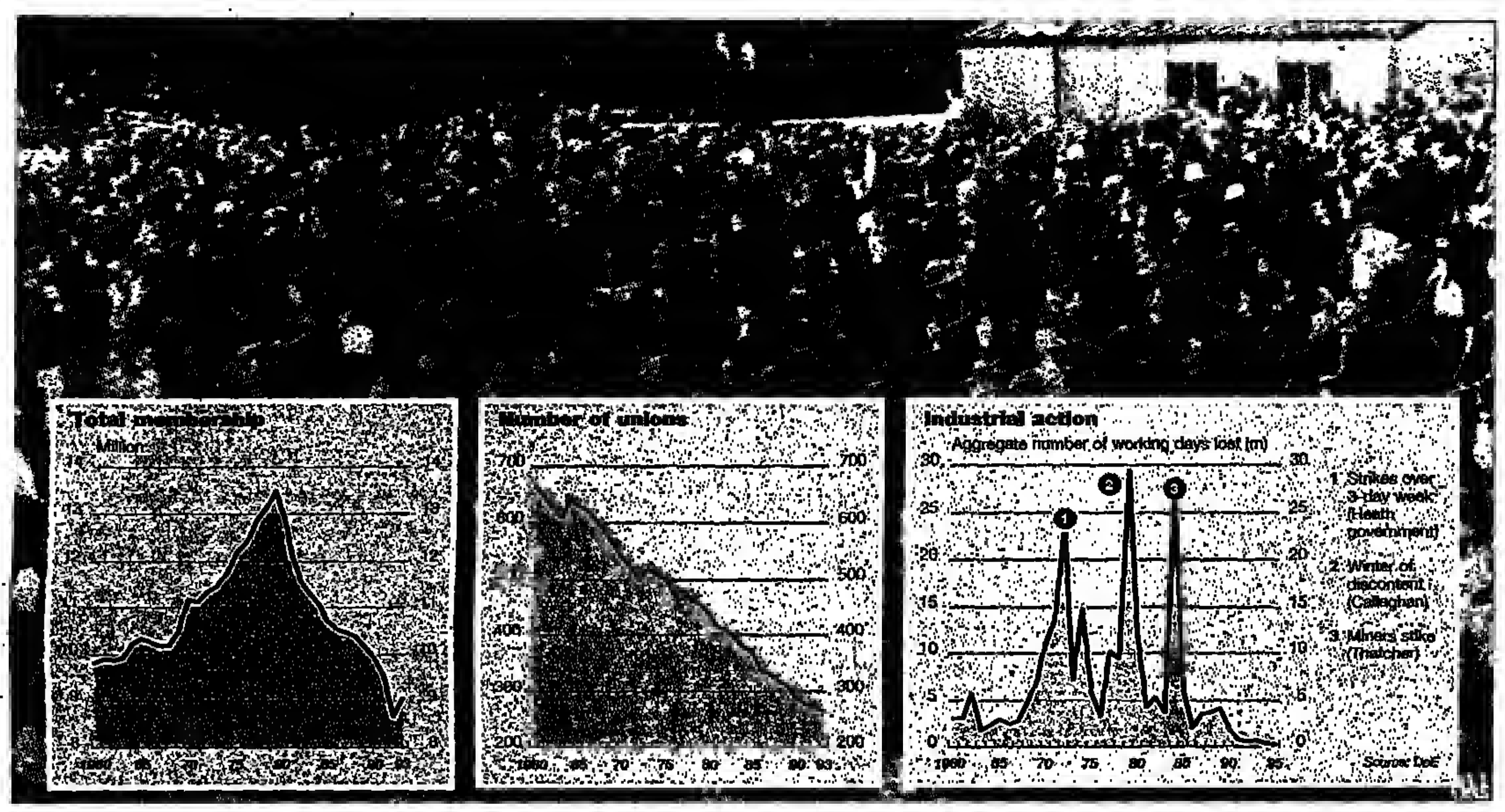
Financial Times

The Shipyards' Dispute

Dec 12 1895 Our Glasgow correspondent telegraphed last night: The Clyde engineers' strike entered tonight into its seventh week, and both sides are as fully determined to carry on the strife as ever. The masters have gone as far as they can, and this evening at a meeting of their committee the proposal was discussed as to whether they should attend the adjourned joint conference as it was put forward that no good results could be expected in face of the uncompromising attitude of the men. I am reassured tonight that the Belfast and Clyde compact lasts only until 31st December, although the understanding may be renewed. Today is regarded as being the blackest in the dispute and it is hinted the masters may be forced to withdraw the offer of one farthing promised on 3rd February. The masters still now have inclined to stand and watch, but the appearances now point to their turning the aggressors.

Jan 8 1896 Our Glasgow Correspondent telegraphed last night: Events tomorrow will prove whether the Clyde engineers' strike is getting any nearer a settlement, as on that day the Clyde shipbuilding and engineering establishments re-open after being closed for an unusually long holiday period. It is expected that some non-union men may return to work, but strong efforts will be made by pickets to prevent men returning.

Jan 27 1896 A Belfast correspondent telegraphs: The engineers have intimated to the Employers' Association their intention of returning to work at 9 o'clock this morning.




# Tide of criticism swings against bosses

By Andrew Bolger, Employment Correspondent

Trade unions now operate in a very different world from thet which led to their industrial militancy being known internationally as the "British disease".

A wave of public sector strikes in the late 1970s helped bring to power Mrs Margaret Thatcher's first Conservative government, which was determined to curb union power.

The subsequent decline in union power and industrial action cannot be attributed wholly to government action: high levels of unemployment and structural changes in the labour market have also been important.

The recession of the early 1980s saw big job losses in heavily unionised manufacturing plants in the industrial north of England and Scotland. The culling of tens of thousands of jobs in coal mining and steelmaking cost the unions dear.

Jobs which have subsequently been created are concentrated in high-technology and service sectors of the economy with smaller workforces. Some of the fastest-growing areas of the country, such as East Anglia and the "M4 corridor" between Bristol and London, have a history of relatively weak unionisation.

Nevertheless the Conservatives have succeeded in transforming the legal framework in which unions operate. There is little prospect of it being changed even if the Conservatives lose office at the next general election. Mr Tony Blair, the Labour leader, recently assured readers of the rightwing Daily Telegraph newspaper: "There is no going back on tha Thatcherite trade union reforms; now we need management and workforce to work together."

Successive Conservative administrations have enacted eight separate pieces of industrial relations legislation since 1979. These have ontlawed mass picketing and have restricted "secondary" action by workers in one company in support of strikers against another. The Conservatives have also abolished the closed shop, which obliged workers to belong to a recognised union before they could work in a particular plant.

The barrage of anti-union legislation has brought consequences never intended by the Conservatives. The extension of democratic procedure through the use of workplace and later postal ballots, as required by law, has helped to legitimise the activities of unions. The introduction of a secret ballot before the calling of official strikes has often been used by unions to improve their bargaining stance with employers.

While unions received little support from opinion polls in 1979, the year in which the last Labour government was defeated, they are now much more popular, perhaps in response to the insecurity which pervades the labour market.

Ona of the regular surveys by the Trades Union Congress indicates that 90 per cent of people believe unions are essential to protect workers' interests. A large majority think the balance of power at work has tipped too far in favour of employers. Mr John Monks, general secretary of the TUC, said: "They are saying the problem is no longer the over-mighty union, but the over-mighty boss."

Yet it remains an open questioo how the unions will respond if continuing recovery leads to a significant tightening of the labour market. Already problems of recruitment and retention are concerning employers of teachers and nurses.

The public sector, where the government has striven to hold down wage levels, may well be the next flashpoint. Sixty-two per cent of public sector workers are unionised compared with 23 per cent in the private sector. "One thing is certain," a senior union official said. "There is going to be a big bust-up in public sector over pay in the next three years."

Wales 'Little resistance from workforce to Japanese style of working'

# Single-union agreements preferred

By Roland Adburgham in Cardiff

In the Welsh capital of Cardiff, production has just begun at the most recent plant to be established in Wales by a non-UK manufacturer. Ocean Technical Glass, a Japanese and German joint venture which will eventually employ 700 people, has followed precedent by negotiating a single-union deal.

The willingness by most foreign-owned companies to recognise unions in Wales reflects their appreciation of the significant role the unions continue to play in the country, with its history of heavy industry. Wales has the highest level of union membership in the UK, at 43 per cent of the employed workforce. "Unions are part of Welsh culture," says Mr George Wright, regional secretary of the Transport and General Workers' Union, one of the largest British unions.

Most incoming companies appreciate this and take the initiative by choosing one union with which to negotiate and thereby avoiding claims for recognition from more than one. Many of the agreements allow for conciliation and/or arbitration in disputes by Acas, the government's independent conciliation service.

Wales has 350 foreign-owned plants employing about 68,000 people, and most have recognised trade unions. Most have also struck a deal with only one union. One of the features of past industrial strife was that in multi-union plants different unions often took disruptive action for different reasons at different times.

Ocean's latest agreement in Wales is with the electricians' side of the merged AEEU engineering and electrical union. With a 24-hour process utilising hot furnaces, the company regards it as essential to avoid disruption.

US companies are the most numerous non-UK businesses in Wales, but some of the largest employers are Japanese which have encouraged the trend towards single-union deals. Sony was the first Japanese company in the region to recognise a union.

Research by Cardiff Business School* shows that, of 24 Japanese companies studied, 22 recognised unions. Only three recognised more than one union, and union membership among employees ranged from 30 to 100 per cent.

In 15 of 18 agreements studied, the researchers reported that "a flexibility clause unambiguously establishes management's right to deploy labour as it sees fit." They commented: "The Welsh workforce . . . has adapted with remarkably little resistance or complaint to a Japanese style of working."

Wales Trades Union Congress, an umbrella organisation established in 1974, has played a leading role in forging arrangements with inward investors. It acted originally as a broker in what were termed "beauty contests" in which unions competed for the right to represent workers at a factory. The intention was to avoid squabbles among unions for recruits.

Unions now tend to negotiate directly with companies, but Wales TUC takes the lead in demonstrating that inward investment is encouraged by the employed side of industry. Mr David Jenkins, its general secretary, stated: "We see our role as full partners in the forging of a successful economy . . . I would ask you to consider myself and my trade union colleagues as potential allies."

Mr Wright reinforces the point. "We want to persuade them to come," he said. "We welcome them with open arms."

Since 1990, days lost due to industrial disputes in Wales have been at or below the UK average. Mr Martin Mansfield of Wales TUC speaks of the "co-operative ethos" in Wales. "Part of the attraction of coming to Wales is that we are not a conflict-based labour movement," he says. "Our intention is to avoid disputes."

*Working for the Japanese by Jonathan Morris, Max Munday and Barry Wilkinson; Athlone Press.*

North-east England 'Issues of the 70s and 80s have largely gone away'

# Government is accused of hostility

By Chris Tighe in Newcastle upon Tyne

Nissan, Fujitsu, Samsung, Siemens: north-east England has claimed a big share of inward investment into Europe since the early 1980s. The north-east and the north-western county of Cumbria now have about 450 inward investment projects representing actual and projected spending of about £7bn ($10.6bn).

Success in attracting such investment has made an important contribution towards safeguarding jobs at a time of sharp decline in traditional industries.

But the past decade has often brought frustration to trade union leaders in the area. Big investors such as Fujitsu of Japan and Korean-owned Samsung have chosen not to recognise any union for bargaining about pay and conditions at their new units in the north-east.

Mr Bob Howard, northern regional secretary of the Trades Union Congress, believes this trend has been bolstered by hostility towards unions from the British government. "Unions have been sidelined by government."

The choice by Nissan in 1984 of Sunderland in the county of Tyne and Wear for its new European car plant was a watershed for the whole north-east. The fight to win the Nissan investment united diverse interest groups. When Nissan decided to negotiate only with the engineering workers' union, rival unions assumed that they would have plenty of opportunities with other inward investors.

They saw recognition deals such as Nissan's as an endorsement of their role. The regional TUC has also welcomed, as a positive hint to British employers, the emphasis placed by many inward investors on training and on the value of their employees' contribution. Yet winning recognition deals from new investors has proved difficult.

Mr Howard combines his union role with a directorship of the Northern Development Company, the region's economic regeneration and inward investment body. A tripartite organisation, its board comprises five directors from the private sector, five from the TUC and eight from municipal authorities.

Mr Howard asserts nevertheless that the UK government's stance has made it difficult in recent years for unions to transmit their message to inward investors. He adds that unions have been exclnded from overseas missions to woo inward investment.

Mr John Bridge, chief executive of the development company, rejects this claim. He says the changing nature of presentations outside Britain reflects the fact that UK industrial relations, once a worry for investors, is no longer an issue. British industrial relations are seen in other countries as being much improved. "The issues we were addressing in the 70s and 80s have largely gone away."

For Mr Howard the big question is whether the Labour party will win the UK's next general election.

He sees Labour adopting a more sympathetic view than the governing Conservatives towards European Union legislation and the concept of co-partnership including employee representation. This, he believes, could create a more favourable climate for unions. He notes that even the prospect of a general election has already meant a softening of attitudes.

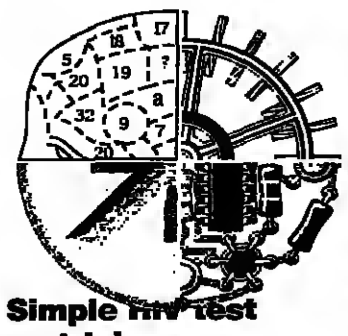
Meanwhile, his immediate challenge is to persuade German investor Siemens to consider a union recognition deal at its £1.13bn semiconductor plant under construction in North Tyneside.

Siemens operates in a unionised climate in Germany and has retained union recognition at British factories it has acquired. Its stance at its big UK greenfield investment therefore has wide implications.

"With a high profile company of the magnitude of Siemens, it would be a very significant coup to re-establish that pattern of industrial relations for the next era," says Mr Howard.

# TECHNOLOGY

## Worth Watching · Vanessa Houlder



### Simple HIV test on trial

An Israeli company has designed a simple HIV test that needs no refrigeration, electricity, distilled water or technical expertise.

The World Health Organisation's Centre for Disease Control is currently evaluating trials, which are taking place in Uganda, Kenya and Argentina.

The test uses a small amount of blood which, unlike standard tests, need not be taken from a vein and separated by a technician. The result is indicated by treated paper. Zer, which specialises in hormonal and immunological diagnostic kits, believes it will be particularly suitable for under-resourced villages in Africa and Asia.

*Zer: Israel, tel 2 251489; fax 2 256486.*

### Motorola tunes to two-way radio

Motorola has launched a two-way business radio to take advantage of the UK government's recent moves to make free additional airwaves and reduce the licence fee to £30 for three years.

The Handie-Com, which costs between £149 and £222, can be used to communicate between two or more people across distances of up to one mile.

Applications could include small hospitals, car sales franchises and sports complexes.

*Motorola Radio Products Group: UK, tel (0)1252 801801; fax (0)1252 801800.*

### Fast 3-D viewing on the World Wide Web

Interactive three-dimensional pages are still a rarity on the World Wide Web, but enthusiasts believe they have the potential to make the Internet far more stimulating.

Superscape, a virtual reality specialist based in the UK and the US, has developed software for viewing 3-D web pages. It says its VisNet software is, on average, five to 10 times faster than the first generation of 3-D viewers.

The VisNet 3-D interactive viewer has a control panel for navigating virtual worlds, but requires no special hardware such as head-mounted displays.

The viewer, which requires a minimum 486 processor, runs on all standard Windows platforms and will work either as a stand-alone helper application or with Netscape and Microsoft web browsers.

*Superscape VR: UK, (0)1256 745745; fax (0)1256 745777.*

### Lactic preservative for cattle feed mash

Dutch scientists have found a way of removing water from cattle feed mash made out of brewing waste without damaging its nutritional value.

The technique, which could cut the cost of transporting the feed, stemmed from the isolation of a bacteria that produces enough lactic acid to keep the mash in perfect condition.

The work was carried out by researchers at the TNO Nutrition and Food Research Institute, the Wageningen Agricultural College, Heineken Technical Service and Bonda's Animal Feed Agency.

*TNO Nutrition and Food Research Institute: the Netherlands, tel 30694414; fax 30697224.*

### Electrical dental decay detector

The thought of using electrical probes to examine teeth will not appeal to everyone. But researchers at the universities of St Andrews and Dundee believe that measuring the electrical resistance of teeth could become a reliable and painless method of detecting dental decay early on.

The researchers believe that the newly developed method, known as AC Impedance Spectroscopy Technique, is more accurate than traditional visual inspection or X-ray.

It works by applying a small electrical stimulus of 10mV and measuring the resulting current, from which the tooth's resistance – it decreases as it decays – can be worked out.

*University of Dundee: UK, tel (0)1382 344021; fax (0)1382 345515.*

# Ship-shape with Esprit

## Denmark's biggest shipyard regained competitiveness thanks to the EU research project, writes Hilary Barnes

For European companies in industries suffering overcapacity and harried by rivals from developing countries, new technology is a vital tool to maintain competitiveness.

Sometimes even survival is at stake, as was the case at the Odense Steel Shipyard, the biggest in Denmark.

In 1986 the yard, with employee numbers down to about 1,000, was on the verge of closure. A steady improvement in productivity was the only way it could hope to survive the intense competition in the international shipbuilding industry.

The yard is now established as one of the most productive in the world, an achievement arising largely from its participation in the European Union's Esprit programmes. These bring together European companies and research institutes to co-operate in the development of new technology.

"One thing is absolutely certain – we would not be where we are today but for the Esprit programme," says Kurt Andersen, the yard's chief executive.

This is quite an endorsement for what the yard's executives consider to be one of the EU's most successful programmes.

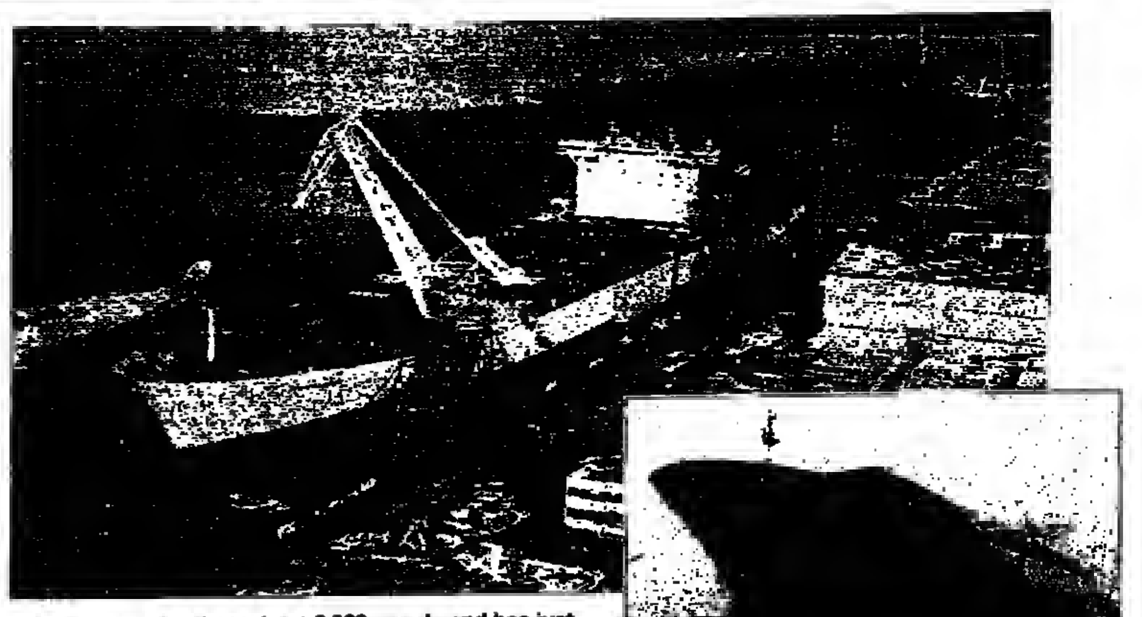
One Esprit programme in which the yard participated was to help develop automatic robot welding technology. Its application has been crucial to the yard's ability to achieve a constant improvement in productivity, says Torben Andersen, executive vice president in charge of the technology programme.

The Odense management claims that productivity has increased by more than 20 per cent over the past five years, with much more still to come. The yard now employs about 2,900 people and has just delivered the first of a series of 12 giant container vessels to its parent, the A.P. Moller-Maersk shipping group.

Each vessel can carry 6,000 standard 20ft containers, making them the largest of this type in the world today.

The associated outlay on containers, about 80,000 40ft and 45ft containers (being built at A.P. Moller's Danish container factory) and on new cranes and other port facilities at Maersk Line's terminals and other ports of call, probably makes this the biggest single industrial investment in Danish history.

A condition of the Esprit projects is that they bring together companies and research institutions from at least two countries. The industrial partners have half their costs covered by the EU: the research institutions have all their marginal costs (costs incurred specifically from participating in a project) covered.



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"Joining an Esprit project multiplies the research effort by 10 as compared with what we could do on our own. This is an enormous upgrading of the effort – and the Commission pays half the bill," says Torben Andersen.

But, he adds, there is more to it than that. On its own, the company would probably not have been able to mobilise sufficient resources for achieving success. "Esprit gives us access to other people's creativity, and creativity is one of the most limited resources there are," he says.

Two of seven Esprit projects in which Odense has participated have produced the most spectacular results to date. The first was a heavy welding project, covering the years 1984 to 1989, the aim of which was to analyse and demonstrate the application of computer-integrated manufacturing in heavy welding fabrication.

It brought together computer-aided design, graphic simulation and production robots, showing how to link a series of computers so that a product could be designed, methods for automated production assessed and machine work instructions generated to guarantee efficient manufacture.

The visible result at Odense is a giant robot welding machine in one of the large halls where huge sections are completed before being lifted out for assembly in the dry dock.

> **'Once welders have tried this work, you can't get them to get back on their knees again'**

The machine has 12 robots, each with eight axes of movement, working simultaneously on a single section. The work of the robots is co-ordinated, a task which calls for supercomputing techniques.

A light sensor system enables the robots to identify and move into the required positions. The job of the welder is to punch the buttons to instruct the robot. "Once welders have tried this work, you can't get them to get back on their knees again," says Torben Andersen.

The second Esprit project, Cleopatra, goes further. It equips the robot with vision, enabling it to adapt programs to changing and complex profiles and to weld complex geometric shapes.

The project is not finished, but Odense is already exploiting the results of the programme. It has robots that work on a concave section, to which it welds sections not at right angles to the base but at an angle of about 70 degrees. This is a more complex task than those carried out by the 12-robot machine, where sections are welded either at 180 or 90 degrees to each other. In Cleopatra, the robot can move around 11 axes compared with the six axes used by most industrial robots.

"The results of the Cleopatra programme are still very speculative, but it goes beyond the limits of traditional robot technology and we expect very exciting advances in coming years," says Torben Andersen.

# Maize's inner strength

A genetically altered maize seed that resists a devastating crop pest is awaiting approval from the EU after winning the go-ahead for sale in North America.

The seed, developed by the seeds division of Ciba, the Swiss chemicals group, is designed to resist the European corn borer, a moth which causes an estimated $1.1bn (£710m) of damage a year to maize crops in the US and Canada alone.

In France, farmers spend about FFr200 (£26) per hectare on sprays against the pest, which lays its eggs on the underside of the leaves. The emerging larvae bore their way into the stalk, leaving empty galleries which prevent the plant feeding and make it collapse in the slightest wind.

Ciba has just received approval from the Canadian agriculture ministry for production and sale of the maize seed hybrids. In the US, it has gone on sale for spring planting this year after receiving approval last summer.

The new seed contains a gene from a bacterium, *Bacillus thuringiensis*, which makes a protein known to control some caterpillars. The protein has been used in sprays since 1960: a safe insecticide, but the corn borer is hard to tackle once inside the plant.

Ciba's approach was to work against the pest from inside. Because maize plants do not speak the same "dialect" as the bacteria, the next stage was to recreate a gene that produced the crucial protein and could be understood by the maize plant.

Ciba scientists then shot tiny beads of gold into the cells, coated with the genetic chemical DNA which found its way into the chromosomes. Within the DNA was a "selective marker" gene which protected the transformed cells from a herbicide used to destroy other cells and allow the altered ones to multiply. The plant's seeds were then used for breeding plants carrying the same two genes.

**Alison Maitland**





## CONTRACTS & TENDERS



## PUBLIC NOTICE









## PUBLIC NOTICE





## LEGAL NOTICES



هكذا من الأصل

Cinema/**Nigel Andrews**

# Queasy tour of crimeland

White liberals have long approached Spike Lee's work like sniffer dogs, suspecting that this black director's anti-racist movies are stuffed with bootleg racism.

Why else, they buff, make a three-hour movie about the firebrand black militant Malcolm X? Why else consort with white-hating demagogue Louis Farrakhan? And in Lee's new film *Clockers*, why else switch the focus from the main character of Richard Price's original novel, a white homicide cop played in the film by Harvey Keitel, to the black teenage drug dealer (Mekhi Phifer) suspected of murder?

We are in a housing estate in New Jersey, but we could be in Purgatory seen through a handheld camera. This adventurously crafted movie is one to answer Lee's critics: not because he has given up railing against white "justice" but because he has become as impassioned with the medium as with the messages. Juggling different styles, tempi and even film stocks – from colour-saturated 16-millimetre to ghostly black-and-white – the movie's expressionism pays homage to the plurality of human fears and passions.

Strike, the boy hero, is a "clocker", or low-level local drug dealer. He is first in line when police cars prowl the park on search-and-deter missions: first in line for daily agonies from a stomach ulcer; first when his boss wants a fellow pusher murdered. We do not see who carries out the shooting – a messy blast outside a fast-food shop – and we are led to believe that Strike's older brother did it to help out.

But the detective (another brilliant, motormouthed turn by Keitel) spends the rest of the film going after the youngster anyway. So do most of the neighbourhood, black and white, seeing in the stammery, victimised Strike a perfect scapegoat for their ills and sins. As Lee's camera joins in the chase, it takes us on a marvellously queasy tour of crimeland, USA: a place where there is almost no solution to any problem and where life is a choice of alternative nightmares.

*Clockers* never sits still, never approves its black characters any more than its white,

CLOCKERS
**Spike Lee**

DESPERADO
**Robert Rodriguez**

JOHNNY MNEMONIC
**Robert Longo**

RENDEZ-VOUS IN PARIS
**Eric Rohmer**

LOCH NESS
**John Henderson**

and uses digression and incongruity as style. There are *verité* scenes, trick photography scenes, Scorsese-like scenes of tumbling verbal passion. And the 50s-Hollywood music which washes over much of the film invoking the postwar American problem picture – when soaring string sections could solve social crises when nothing else would – is inappropriate only if we feel that other movie options would be more appropriate. But the drugs problem, in much of the west, has already gone beyond docudrama into melodrama.

Lee establishes his own free movement between East Coast realism and surreal Hollywood grandiloquence. Hallucination, which is the name of the drugs game, becomes also the language of the offenders and the state of the law. *Clockers* suggests that if we do not sort ourselves out it may become the state of the urban world: a place caught writhing and gibbering eternally between agony and Ecstasy.

★

Elsewhere, it is a great week for those who believe that Hollywood should be locked in a correctional institute to learn social and fiscal responsibility.

The budget for Robert Rodriguez' Columbia-produced *Desperado* was 850 times that of his famous homemade *El Mariachi* ($7000). So how come the $6m movie is only half as good? Antonio Banderas plays the gunslinging guitarist, lost in a storyline that never engages us with either him or his sultry café-owning girlfriend (Salma Hayek). Meanwhile villain Joaquim de Almeida growls, scowls and fellates a series of large cigars. In between the sound-barrier-breaking showdowns between his henchmen and Banderas.

I enjoy gratuitous violence as much as the next filmgoer. Mayhem which pretends to moralise often depraves us more, with its catchpenny hypocrisies, than violence that exults in its own rollercoasting anarchism. Rodriguez certainly exults. The film is fast, furious, ballatic, hallistic; and full of wall-turned action gags like the eyeball-to-eyeball duel between two survivors of a saloon bar battle, who snatch guns one by one frantically from the floor only to find that each clicks emptily in turn.

But action needs plot and character to thrive for feature length. Forty minutes into *Desperado* we feel like starving people in a desert who have stumbled on a firework display. Very wonderful, very pretty; but could we please have some food and water in the meantime?

Keanu Reeves has a great speech about room service in the William Gibson-scripted sci-fi fantasy *Johnny Mnemonic*. Since it is the film's only good moment, I suggest you discover it yourself by renting the video and scrolling forward. The rest of the movie does not justify a ticket price. The ex-star of *Bill And Ted's Excellent Adventure*, who hardly seems an advertisement for intelligent life at the best of times, plays a cyber-messenger with an overloaded brain who must shed megabytes or expire. Instead of taking the preferable course, he stays for two hours of inchoate plot, loud music and distinction-free digital images.

★

Eric Rohmer's *Rendez-vous In Paris* looks as if it was made with the small change from *El Mariachi*'s budget, though with a script reinforced by the megabytes that could never fit into Keanu Reeves' brain. In three separate stories, a series of beautiful ill-focused youngsters float across a 16-millimetre Paris talking of *l'amour et la vie*. A boyfriend-suspecting girl finds betrayal at a Paris café. A couple on the brink of romance roam the Paris parks before agreeing to an ill-fated love nest. A painter juggles two girls before losing them both.

Meanwhile the characters talk as only the French talk, in rapt, convoluted abstractions. "I like the situation I'm in, even though in theory I detest it" says story number two's vacillating heroine. In theory we demur at all this blurry peripeteia and ambulant chatter. But Rohmer applies an uncanny stethoscope to the human heart, enabling him and us to hear its secret messages to the brain. The main rendezvous in this Paris, as in all Rohmer's better films, is between Beaumarchais and Pascal.

Mekhi Phifer as Strike, who becomes a scapegoat for all the neighbourhood sins in Spike Lee's 'Clockers'

The phrase "red herring" hovers horribly over the pen of the *Loch Ness* reviewer. For we are damned if old Nessie, in this whimsical Anglo-American comedy, is any more than an excuse to usher in a romance between Ted Danson (Los Angeles bio-physicist) and Joely Richardson (Scottish B-and-B owner) on Britain's most folkloric littoral.

He falls for her, she subsides more circumspectly towards him. And newcomer Kirsty Graham takes advantage of the delay to steal the picture. As Joely's daughter, a human water-kelpie with red hair and laughing eyes, she leads our hero to the climactic truth: or as close to the truth as Jim Henson's Creatura Workshop can diligently get.

John Henderson directed. John *Young Guns* Fusco screenwrote. And if few are the laughs, much is the charm of this film, which rightly decided that human beings are more interesting than monsters.

# Simon Rattle to change his tune

## As the brilliant 41-year-old conductor relinquishes his post as music director of the Birmingham Symphony Orchestra, Andrew Clark looks at his options

The "occupied" sign no longer hangs outside Sir Simon Rattle's door. After 18 years of total loyalty to the City of Birmingham Symphony Orchestra, he will give up his post of music director in mid-1998.

Sir Simon has agreed to spend two months a year with the CBSO after 1998, and says he "will continua to work with [it] more than any other orchestra". Although this suggests he does not want to rush into another job, it is hard to imagine him devoting ten months of the year to what he has described as the "unsatisfactory occupation" of guest-conducting.

At 41, he already enjoys a level of global admiration gained by no other British conductor since Beecham and Barbirolli in old age. The clamour for his services will be deafening. But his resignation statement sums up his dilemma: what orchestra or opera company could ever offer him the working climate he has developed in Birmingham?

Both of London's opera companies would snap him up if they could. English National Opera already has a vacancy, and by 1998 the Royal Opera will be looking for Bernard Haitink's successor. But whether Rattle could put up with the constant compromises of a big opera company is a moot point. He has blind spots in core areas of the repertoire, and has no time for singers who will not rehearse. Nor is he enamoured of the fly-by-night practices of the London orchestras.

The feeling is reciprocated. Ona leading orchestra manager says Rattla's career has been "media-cushioned", and that he has yet to be tested in the rough-and-tumble of the real world. "So many people say he's marvellous, bnt there's a slightly hollow ring. He's had difficulties in London because he constantly feels the need to tell individual players what to do. He nags – that's why some orchestras think be's a bore."

There are no obvious vacancies among the leading US orchestras (unless Boston gets rid of Ozawa), and Rattla has a patchy record in Europe: on his first visit to Amsterdam he "bombed" with the Royal Concertgebouw, and his early visits to the Berlin Philharmonic were far from harmonious.

"The trouble with Simon", says a member of the BPO, "is that he likes having it all his own way. He's not a tyrant by nature, but he enjoys phenomenal conditions in Birmingham. He'a not used to orchestras which heve a mind of their own. When he comes here, it's as if be wants to de-Germanise the Berlin Philharmonic. He's still not prepared to take the world as it is – he expects it to fit his image of it."

Unlike the Berliners, tha Viennese know how to humour their guests – which is why, in their few engagements together, the Vienna Philharmonic and Rattle have been bound in mutual admiration. But the VPO spends most of its time in the opera house and does not have a principal condnctor.

The most likely opening in Europe would be Leipzig. Kurt Masur, the Gewandhaus Orchestra's long-serving chief, is a great admirer of Rattle, and has already talked of leaving to focus on his work in New York. But is Rattle temperamentally suited to a German environment? Whatever path he chooses, he will doubtless surprise us – as be has constantly done throughout his astonishing career.

But "career" has never entered into Rattle's vocabulary. All he wants is "to condnct a bit better. Yon are in real trouble if you think you have arrived." His credo is that "you must force yourself to keep exploring, finding new paths. To keep on renewing is incredibly important".

Parting with Birmingham will be a massive wrench for both sides. Only 25 when he was appointed chief conductor, Rattla grew up with the CBSO. His transformation of it into an orchestra of international stature has been the highlight of British musical life for the past decade and a half. Thanks to him, Birmingham has the most exciting concert programming in the UK – and the best new hall for many a mila beyond. Rattle has probably given Birmingham all he can, and the CBSO must now prove it can maintain its international profile with a different conductor.

The rise in Birmingham's status means it will be looking for someone of wide repertoire strengths and proven box-office appeal. Although little-known in Birmingham, conductors like Leonard Slatkin, Donald Runnicles and Esa-Pekka Salonen would doubtless make themselves available. But what establisbed conductor would want to move to Birmingham with Rattle still breathing down his neck?

Rattle has proved in Birmingham that whenever talent and energy are aligned to a common will and good planning, audiences will follow. Next month sees another chapter of *Towards the Millennium* – his decade-long programme idea which he will continue supervising until the spring of 2000. His other long-term plans include tours with the Vienna Philharmonic and the Orchestra of the Age of Enlightenment, and a link with the Salzburg festival.

Rattle is entering a new phase of his life. Last month he re-married, and now he must push his musical horizons beyond Birmingbam. Rattle is not a pushy man – nor one to be pusbed. He still bas vast areas of the repertoire to explore. The musical world will watch his progress with interest.

# INTERNATIONAL ARTS GUIDE

## AMSTERDAM

**CONCERT**
**Concertgebouw**
Tel: 31-20-5730573
● *Koninklijk Concertgebouworkest*: with conductor Riccardo Chailly perform works by Hindemith, Weill, Shostakovich and Mussorgsky; 2.15pm; Feb 11
**EXHIBITION**
**Stedelijk Museum**
Tel: 31-20-5732911
● Leon Korsoff. Paintings and Etchings: *the exhibition presents* paintings and etchings by the British *artist Leon Korsoff. The selection* made for the 46th Venice Biennale will be shown in its entirety. Korsoff's subjects include portraits, nudes, and views of *London and its* citizens; from Feb 10 to Mar 31

## BASEL

**EXHIBITION**
**Kunstmuseum Basel**
Tel: 41-61-2710228
● Mit Turban und Fahne: exhibition devoted to a so-called 'portrait historié' by the Dutch painter Aelbert Cuyp (1620-1691), in which a 17th-century family is portraited in historical costumes representing a biblical scene. Recently it turned out that part of the work had been painted out in the 18th century. The original painting has now been restored and is shown to the public amid related works; to Feb 11

## BERLIN

**OPERA**
**Deutsche Oper Berlin**
Tel: 49-30-3438401
● Die Zauberflöte: by Mozart. Conducted by Stefan Soltesz and performed by the Deutscha Oper Berlin. Soloists include Reinhard Hagen, Peter Seiffert, Gerd Feldhoff and Amanda Halgrimson; 7pm; Feb 9
**Komische Oper** Tel: 49-30-202600
● Giustino: by Handel. Conducted by Charles Farncombe and *performed* by the Komische Oper; 7pm; Fab 9

## GENOA

**DANCE**
**Teatro Carlo Felice**
Tel: 39-10-589329
● Baseball: a choreography by Moses Pendleton, performed by Momix. Soloists includa Erin Elliott, Steve Gonzales, Renee Jaworski, Solveig Olsen, Terry Pexton and Brian Simerson; 9pm; Feb 10, 11 (also 3.30pm)

## HAMBURG

**CONCERT**
***Musikhalle Hamburg***
Tel: 49-40-346920
● Yvi Jänicke: accompanied by pianist Matthias Kirschnereit. The mezzo-soprano performs songs based on poems by Eichendorff. Tha programme includes works by Arnold Mendelssohn, Wolf, Brahms, Mendelssohn, Herzogenberg, Jensen, *Pfitzner* and R. Schumann; 8pm; Feb 9

## LONDON

**CONCERT**
**Wigmore Hall** Tel: 44-171-9352141
● Catherine Wyn-Rogers: *accompanied* by *pianist* Malcolm Martineau. The contralto performs songs by Berlioz, Berg, Quilter, Dunhill, Finzi, Horder and Howells; 5pm; Feb 10

## LUXEMBOURG

**THEATRE**
**Théâtre des Capucins**
Tel: 352-220645
● Dia bösen Köche: by Günther Grass. Directed by Jean-Paul Maes and performed by the Théâtre des Capucins. The cast includes Marte Horstmann, Sökhan Bolcan, Patrick Hastert, Max Putz and Ingeborg Willrodt; 8pm; Feb 9, 13, 14

## MEXICO CITY

**EXHIBITION**
**Museo del Palacio de Bellas Artes**
Tel: *52-5-5101388*
● Gauguin y la escuela de Pont-Aven: axhibition of some 80 paintings, watercolours, gouaches and drawings created by Paul Gauguin and his disciples at Pont-Aven, Brittany, at the end of the 19th century. The display includes works by Gauguin, Bernard, Denis, Lacombe, Moret, Seguin and others. The exhibits come from French museums and private collections; to Feb 11

## NEW YORK

***CONCERT***
**Alice Tully Hall** Tel: 1-212-875-5050
● Camellia Johnson and Simon Estes: the soprano and bass join tha *Burke Avenue Baptist* Church *Choir*, conducted by Angelique Banks-Coleman, in an evening of spirituals; 7.30pm; Feb 11
***Carnegie Hall*** Tel: 1-212-247-7800
● Benita Valente and William Stona: accompanied by pianist David Golub. The soprano and baritone *perform Wolf's Italienisches* Liederbuch; 8pm; Feb 9
**EXHIBITION**
**International Center of Photography** Tal: 1-212-860-1777
● Eve Arnold: In Retrospect: black-and-white photographs with themes from politics to entertainment and social movements around the world, in a retrospective of Arnold's career as a photojournalist; to Feb 11
**OPERA**
**Metropolitan Opera House**
Tel: 1-212-362-6000
● *Falstaff*: by Verdi. Conducted by James Levine and performed by the Metropolitan Opera. Soloists include Barbara Bonney, Barbara Daniels, *Marilyn Horne and Paul* Plishka; 8pm; Feb 10

## OSLO

**DANCE**
**Norske Opera** Tel: 47-22-429475
● Midsummer Night's Dream: a choreography by Robert Sund to music by Mendelssohn, performed by the Norwegian National Ballet. Soloists include Jan de Miranda, *Lina Alsaker and Ulf Scheerbath*; 7.30pm; Feb 9, 10 (6pm), 12, 13, 15, 16, 17 (6pm)

## OXFORD

**EXHIBITION**
**Ashmolean Museum of Art & *Archeology*** *Tel: 44-1865- 278000*
● *Underwood's Children* - The Wood Engravings of Gertrude Hermes and Blair Hughes-Stanton: *exhibition of recently acquired* works by Hughes-Stanton and Hermes, both pupils at tha Green Brook School of Art, in Hammersmith, run *for 10 years from* 1921 by Leon Underwood; to Feb 11

## PARIS

**CONCERT**
**Théâtre des Champs-Elysées**
Tel: 33-1 49 52 50 50
● *Orchestre de Violoncelles: with* conductor Frédéric Lodéon perform works by Villa-Lobos, Fauré and Casals; 11am; Fab 11

## ROTTERDAM

**EXHIBITION**
**Museum Boymans-van Beuningen**
Tel: 31-10-4419400
● Schatten van da Tsaar. *Hofcultuur van Peter de Grote uit* het Kremlin: exhibition of treasures from the Kremlin. The display focuses on life at the Tsars' court in *Moscow; to Feb 11*

## STOCKHOLM

**CONCERT**
**Konserthuset** Tel: 46-8-7860200
● Mambers of the Filharmonikerna: with conductor Ake Holmquist *perform septets by Beethoven and* Berwald; 11am; Feb 11
**OPERA**
**Kungliga Teatern - Royal Swedish Opera House** Tal: 46-8-7914300
● Le Nozze di Figaro: by Mozart. Conducted by Markus Lehtinen and performed by the Royal Opera Stockholm. Soloists include Peter Mattei, Britt Maria Aruhn and Brigitta Rydholm; 7pm; Feb 9

## VIENNA

**OPERA**
**Wiener Staatsoper**
Tel: 43-1-514442960
● I Puritani: by Bellini. Conducted by Antonello Allemandi and *performed by the Wiener Staatsoper*; 7pm; Feb 10

## WASHINGTON

**CONCERT**
**Concert Hall** Tel: 1-202-467 4600
● St. Petersburg Philharmonic: with conductor Mariss Jansons and pianist Emanual Ax perform tha overture to Weber's Euryanthe, *Mozart's Piano Concerto No.17*, and Dvorák's Symphony No.9; 3pm; Feb 11
**EXHIBITION**
**National Gallery of Art**
Tel: 1-202-7374215
● Dutch and Flemish Still-Life *Paintings: this installation focuses on* tha Gallery's recently acquired still-life painting 'Banquet Piece with Oysters, Fruit and Wina' by tha Flemish painter Osias Beert the Elder; to Feb 11

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## COMMENT & ANALYSIS

Peter Martin

# Why Apple is boxed in

**The computer company's popular brand should give it a big advantage but it has been hampered by its failure to adapt to the industry standard**

Q: What is more powerful than a brand? A: A standard. This is the principal lesson of Apple Computer's woes, culminating last week in the departure of its chief executive and the collapse of negotiations over a possible rescue purchase by Sun Microsystems.

Apple has built one of the most impressive brands in the computer industry – indeed arguably the most important new global brand in any industry of the last 20 years. Despite its recurring problems, it retains the loyalty of its users and the admiration of a wider public. That ought to be an overwhelming advantage. Yet Apple is unable to turn what marketing experts call its "brand equity" into real profits.

Bill Gates of Microsoft, Apple's old sparring partner, says there was nothing wrong with the company's strategy, which be summarises as "a unique hardware/software combination". The mistake, he believes, was in the way Apple went about putting its strategy into practice.

Certainly Apple has made mistakes: any company which has lost three bosses in a row has clearly had management problems. But the real lesson of the company's difficulties stems from the way in which certain sorts of market rapidly crystallise around *de facto* standards. If you are a supporter of the mainstream standard, you can do well even with an indifferent product. If you are a supporter of a losing or minority standard, the task is much harder, even with an outstanding product.

Bill Gates understands this process better than anyone else in the computer business. His company has consistently managed to win standards wars. On the rare occasion when Microsoft loses such a battle, it rapidly cuts its losses and joins the mainstream, a process seen most recently in its move away from a proprietary on-line network towards wholehearted embrace of the Internet. In his book *The Road Ahead*, Gates provides a lucid description of how the standards effect works. "A positive feedback cycle begins," he says, "when, in a growing market, one way of doing something gets a slight advantage over its competitors." The effect works best when the product has low marginal costs and gets some of its value from compatibility.

"Compatibility is important because the more applications that are available, the more valuable the machine becomes to a consumer. At the same time, the more machines consumers buy, the more applications software developers create for it." Thus, says Gates, a positive feedback cycle sets in.

Apple's Macintosh had a chance of setting a new standard to replace the first generation of IBM PCs. It failed to do so, and found itself confined to a minority market share. That was still large enough to provide the company with a living, but in time the mainstream products matured and gradually offset the Macintosh's advantages. Life became increasingly tough: software for Macintoshes became harder to find, market share shrank, and the company had to compete increasingly on price.

One analyst said last week that Apple was still viable as a producer of premium products: after all, luxury carmakers live healthily on a 10 per cent market share. This is the wrong analogy, however: even Mercedes might find life difficult if its cars ran on different fuel from the rest of the industry, and owners had to make a special trip across town each time they wanted to fill up.

It is still not too late for Gilbert Amelio, Apple's new chairman and chief executive, to pull off a last-minute rescue, but the odds are stacked against him.

So what are the lessons of competing in the new world of consumer-driven standards? There are three: price, open minds and continuous innovation.

● Price. An innovative product can usually command a premium price. But a would-be standard-setter cannot afford to exploit that potential premium too ruthlessly. To ensure that the product becomes widely accepted – becomes the mainstream standard – it is essential to hold the price down. This is what Microsoft did with its MS-Dos operating system; in an extreme form it is what Netscape is doing by giving away its "browser" software for the World Wide Web. Of course, this is easy if you are in the software business, where each individual copy costs little or nothing to produce. It is harder if you manufacture computer hardware, where your cost structure may make it hard to sell units cheaply. That is a powerful reason for learning the second lesson:

● Open minds. By making it easy for other hardware producers to adopt your standard, you obtain the advantages of cheaper products from inherently lower-cost manufacturers. Apple refused to allow outsiders to make Apple clones until recently, and has still been dragging its feet on the issue. Jean-Louis Gassée, the company's second-in-command in the late 1980s, used to boast to visitors about how clever Apple had been in keeping the cloners at bay. As a result, he pointed out, the margins on Apple hardware were much higher than in the much more open market for IBM PC clones. Yet in winning that battle, Apple was ensuring eventual defeat in the war.

The open approach does not just mean sharing vital design information with rivals, it also means building standards that are inherently easy for outsiders to comply with. Apple urged outsiders to write software for the Macintosh; but the software interface was so complex that many found this difficult.

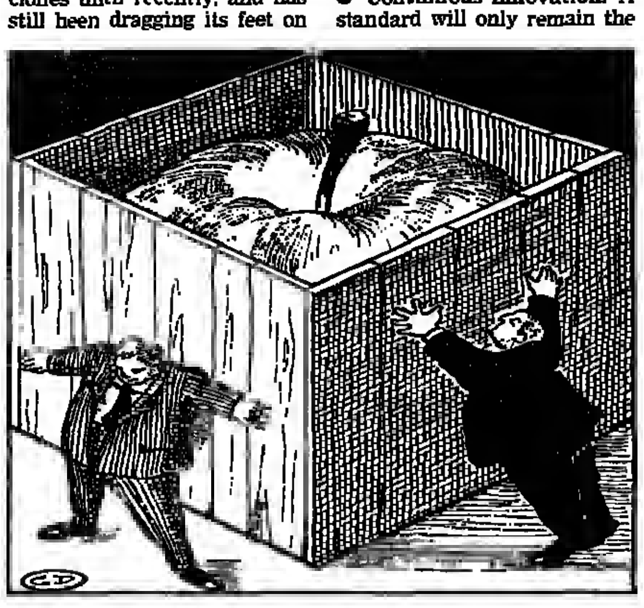
Open-mindedness works both ways: successful standards-setters, like Sun, are also willing to adopt others' standards rapidly and enthusiastically, avoiding the "not-invented-here" syndrome. The same applies to industry standard components. By insisting on unique component designs, Apple has ensured higher manufacturing costs and an inventory cycle that is much harder to manage.

● Continuous innovation. A standard will only remain the dominant one as long as the costs for users of switching away from it exceed the gains of doing so. To prevent such switching, successful competitors continuously enhance their standard, moving swiftly to absorb or imitate rivals' innovations. Sun and Microsoft have done this often. They are now being imitated by Netscape, which is aggressively introducing innovations in its Web products and, at the same time, fighting the threat from rival technologies. One such threat is Sun's Java programming language, which is being promoted as the next big standard for the network era.

In a particularly neat move, Netscape has joined with Sun to develop a parallel product, JavaScript, which will be easier to use. If Java becomes the new standard, Netscape will be fully compliant. If Java proves too complicated, as some suspect, Netscape will have partial control of its most likely replacement.

In the 1960s and 1970s, IBM established a proprietary standard, with the success of its big mainframes. Such dominance – imitated by mini-computer and workstation manufacturers – is unlikely to occur again, not least because human ingenuity has found ways round the protection offered by trade secrets and patents. The new standards era was initiated by Matsushita and JVC of Japan, victors over Sony and Philips in the video-recorder wars of the 1970s and 1980s. But setting a standard is not a route to permanent profits: it offers a temporary advantage, on which a skilful company can build to stay ahead.

It will always be tempting to avoid the burdens of a bid for standards dominance – the sacrifice in margin, the pain of helping your competitors, the strain of continuous innovation. But the Apple story shows that, in those markets to which the standards effect applies, there is no satisfactory alternative.



**BOOK REVIEW · Jurek Martin**

PRIMARY COLORS - A NOVEL OF POLITICS: By Anonymous
Random House, $24, 366pp

# A moral message on electing presidents

Bob Dole was on the mark when he called it "the biggest parlour game in town". But the search for the identity of the Anonymous who wrote *Primary Colors*, the novel rooted in the Clinton campaign of early 1992, cannot disguise something else. This may be one of the most provocative, best written and curiously most moral political books of fact or nominal fiction in many a year.

Martians may need a brief precis. Jack Stanton is the governor of a small southern state running for the Democratic presidential nomination. He has a smart wife, a Yale graduate, called Susan. The narrator is his deputy campaign manager, Henry Burton, whose grandfather was a legendary black preacher. He is a dead ringer for George Stephanopoulos, the presidential adviser who was Bill Clinton's communications chief in the 1992 election and whose father is a Greek Orthodox priest.

Other real-life characters are instantly recognisable. Richard Jemmons is James Carville, the foul-mouthed campaign genius. "Mr Former Senator Lawrence Harris", a dour sort, is Paul Tsongas, the ex-senator from Massachusetts who was Bill Clinton'a principal rival for the Democratic nomination. Luther Charles is Jesse Jackson, the black presidential candidate in the 1988 election, and Governor Orlando Ozio of New York is Mario Cuomo of New York whose decision not to seek the candidacy in 1992 left the field clear for Mr Clinton.

Former Governor Freddy Picker of Florida, who emerges as the biggest threat to Stanton, is harder to categorise but there are hits of Ross Perot, Jerry Brown and maybe Gary Hart in him. The heroine, if there is one, is his troubleshooter, Libby Holden, a volcanic recreation of Betsy Wright, Clinton's old chief of staff in Little Rock (Mammoth Falls) who put down "himbo eruptions" in 1992.

The book sticks closely to the events of that year before branching off. Stanton is riding high going into New Hampshire when he is hit first with a sex scandal (for Gennifer Flowers read Cashmere McLeod) and then with a military draft problem. He recovers against the odds but the plot, a good one, should not be given away, other than to note that a real estate investment (Sunshine not Whitewater) becomes a factor, as do drugs (cocaine not marijuana.)

This literary approach is not original. Robert Penn Warren's great novel *All The King's Men* was a thinly-disguised account of the rise and fall of Huey Long, the Louisiana populist governor. It works just as well here because the portrayal of Stanton/Clinton is wholly persuasive. The man has a passion for and is a master of retail politics, able to suck the air out of a person or a room and give both his undivided attention. He has, as Burton puts it, "big ears" and his handshake is a work of art. He can discuss the price of rice in Asia and the qualities of southern barbecue with equal ease.

Seasoned overseas politicians such as Lord Owen, the European Union's mediator in Bosnia, attest to the extraordinary magnetism Clinton can exert on anyone he meets. So, given his retreat on the budget after 50 hours in the White House, might Newt Gingrich, the Republican House speaker. That is why the Republican party so fear him this year – unless, of course, the retail politics that served him so well in 1992 has gone out of style, replaced by the wholesale commercialised version now being peddled to some effect by Steve Forbes.

He also has the huge character flaws which keep Republican hopes alive. Susan/Hillary, another good portrait and given a brief sex scene, says that her husband could be a great man "if he weren't such a faithless, thoughtless, disorganised, undisciplined (expletive)". But she remains his closest adviser and seems to accept him, warts and all – if only, as the narrator observes, to draw vengeful attention to her own self-perceived perfection.

The detail is caught dead to rights, as is the nature of the campaign itself, a seat-of-the-pants operation with daily highs and lows, rows and mindless grind. Much lies in handling the press, otherwise known as the "scorps", some of whom get walk-on parts.

But in their thoughtful moments the battered Stantons, even Jack with his inexhaustible physical and spiritual reserves, wonder if there is not a better way to elect presidents. That is the book's moral message, and it now seems to be on the public mind. Freddy Picker appeals because he has been out of politics for years, just as Perot, Colin Powell and, if temporarily, Forbes attract because they have never been in the game.

Another game, the search for the writer, must be played though. No journalist could keep silent about being the author of such a hot book nor, probably, have produced one so well-written. Its dialogue and dialects, from New York to the south, crackle throughout, worthy of modern masters of the conversational novel such as Elmore Leonard, Walter Mosley and Carl Hiaasen. Yet the feel for politics is surely beyond their ken.

It might, however, be within the eclectic capabilities of Garry Trudeau, author of the often political Doonesbury cartoon and scriptwriter of *Tanner '88*, a sharp election soap opera aired on cable TV in 1988. Clinton, Stanton and Tanner are alike, but in Doonesbury, Clinton is a floating Belgian waffle. It is anybody's guess.



# ·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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## Tough penalties way to cut late payments

*From Mr Jan Erik Paulden.*

Sir, The conclusions drawn by the Association of British Factors and Discounters from its European survey on late payment confirms the old adage that a little knowledge can be a dangerous thing ("Late payment penalties doubt", February 6).

The ABFD claims there is "little correlation between tough penalty regimes and prompt payments". To back this up, it points out that although Italy, Spain and Cyprus have a statutory right to interest they have poor payment records, while Sweden bas the best.

The ABFD is obviously unaware that Sweden has a mnch tougher penalty regime than any other country in Europe, especially compared to that of Italy and Spain. In Sweden, statutory interest is set at base rate plus 8 per cent and is automatically applicable without having to go to court. In addition, late payers must pay compensation to creditors for any legal costs and also pre-legal administrative costs incurred in chasing an overdue debt. Finally, Sweden has developed a fast, cheap summary legal procedure for creditors to collect late payments without having to use a lawyer.

The net result is that late payers are heavily penalised in Sweden. A very similar system is also in place in Norway and Finland. Hardly surprising tben that the ABFD found that northero countries generally bave better payment records.

In Italy and Spain, on the other hand, the provision for statutory interest is virtually unenforceable due to the high cost and long delays in legal procedures, whicb means It can take several years to process a debt case.

As for the difference between north and south being entirely cultural, before Sweden introduced its strict late payment legislation, payment periods were typically 60 to 90 days, compared to 35-40 at present.

A deeper knowledge of European late payment systems must surely draw the opposite conclusion to the ABFD's, that there is a clear correlation between tough penalty regimes and prompt payments. Would the British government please take note.

**Jan Erik Paulden,**
**head of public affairs,**
**Intrum Justitia,**
**World Trade Centre,**
**Strawinskylaan 1013,**
**NL-1077XX Amsterdam,**
**The Netherlands**

## Apple strong in Europe

*From Mr Marco Landi.*

Sir, In general Apple does not comment on articles about Apple which appear in the press. The article by Louise Kehoe which appeared in your paper on February 1 (Technology: "Will Mac be orphaned?") does, however, require correction. In the article, she indicates that Apple's corporate sales in Europe are believed to have slowed in the last few days. She does not tell us where she obtained such erroneous information, but she is apparently not well informed on this subject.

In fact, Apple's corporate sales in Europe in the current quarter *and* the last few days have been very strong and are contributing to a strong performance in Europe. Many corporate customers in Europe recognise the advantages of Macintosh computers. They are easier to use, and require less maintenance and technical support than competing products. This leads to higher employee efficiency and lower costs.

Apple Europe is greatly concerned that a press report such as Ms Kehoe's can become self-fulfilling and thus cause great damage to Apple's reputation and corporate business in Europe.

**Marco Landi,**
**president,**
**Apple Computer Europe,**
**12 avanne d'Océanie,**
**ZA de Courtaboeuf,**
**91956 Les Ulis Cedex,**
**France**

## Nothing hysterical about British reaction to Kohl

*From Mr Nicholas Aylott.*

Sir, Ian Davidson rightly identifies contradictory Britisb reaction to Chancellor Kohl's speecb in Loovain ("Beyond the catcalls", February 7). But it can scarcely be called hysterical, let alone a sign of "some self-destructive collective madness".

The push for a single currency has in fact only a passing connection with completing the single market. It has moch more to do with the pursuit of national interests, as perceived by political elites in the few countries with a serious chance of participating in Emu. Germany's motive is a legacy of the war: its aim, as its leader states openly, is to reassure its neighbours by renouncing the power of its mighty currency. Governments in France and the Benelux countries, meanwhile, have for some years judged their national economies so intertwined with Germany's as to make impractical tbe pursuit of independent monetary policies. Devaluation against the D-Mark, it is believed, would have unacceptably inflationary consequences. For them, Emu's attraction – in effect, seats on the Bundesbank's governing council – is obvious.

This simply does not apply to the UK. It has an economy big and different enough, both in terms of domestic characteristics and international trade profile, to make an autonomous monetary policy quite feasible – as experienced since sterling's ejection from the exchange-rate mechanism in 1992 illustrates. Thus: without tbe same interests as some fellow Europeans, it is hardly surprising most Britons, who have grown up to see Germany as simply another European country, find baffling Kohl's implication that the choice for Europe is between Emu and war. Even less surprising is that to those witb wartime memories – and this, considering the chancellor's motives, is supremely ironic – it sounds like a threat.

**Nicholas Aylott,**
**department of politics,**
**Keele University,**
**Staffordshire ST5 5BG, UK**

## Legal task faces Georgia

*From Professor Michael Singer.*

Sir, John Lloyd's article "Symbol of Georgia tries to keep the faith" (February 3/4) well describes the present sad plight of the artistic and intellectual communities in Georgia.

Georgian artists and writers are not alone in struggling for cultural and ustional survival, as f discovered on a recent visit to Tbilisi at the invitation of the parliament of Georgia. In meetings with leading members of parliament, government ministers, judges of the supreme and constitutional courts, and other key figures, I felt from them all an indomitable will to co-operate in the development of Georgia into a democratic state in which human rights are fully respected.

Georgia has recently enacted a new constitution, which generally respects democratic institutions, rule of law, and human rigbts. However, tbe legal system in force largely reflects and implements the constitutional structures of an earlier era. To achieve its aim, Georgia must create and implement an entire new legal system. Moreover, it must do so rapidly, since delay might encourage factions less well disposed to democracy.

This is an enormous task, and Georgia cannot easily muster the resources to undertake it alone. Consequently, parliament has invited the Interoational Rule of Law Institute to set up a programme of continuing professional support.

**Michael Singer,**
**executive director,**
**International Rule of Law Institute,**
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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday February 8 1996

# The terms of UN survival

Five years after the end of the cold war, and the ensuing wave of optimism over the UN as an instrument for tackling global problems, the organisation is fighting for its life. While previous reports of the UN's death have turned out to be exaggerated, the facts spelled out this week by Mr Boutros Boutros Ghali, the secretary general, are stark enough to concentrate the most sceptical of minds.

With accumulated arrears, as of December, standing at $2.3bn, the UN secretariat only managed to keep functioning last year by dint of financial subterfuge: dipping into the peacekeeping account to plug the holes in its general budget. But that trick will not work this year. The peacekeeping fund is being cut back, and soon there will be nothing left to plunder. Unless extraordinary measures are taken to refinance the UN by the end of the year, it will not simply be trimming fat but shutting down altogether, as happened recently to the federal government in Washington.

The crisis has some peculiar features. First, the sums at stake are, by international standards, paltry. As the UN General Assembly's Portuguese president noted recently, the Secretariat's 1996 budget, at $1.3bn, is barely one-fifth of his small country's education budget. Its personnel policies are irrational. Some parts of the organisation are undoubtedly overmanned: others are absurdly understaffed. If the peacekeeping department has done an imperfect job, that is partly because its 300-strong headquarters is simply too small to supervise up to 70,000 soldiers in 20 troublespots at once.

The way in which these employees are deployed, and the procedures by which they are held to account, still leaves much to be desired. Moribund institutions like the committee on decolonisation have remained in existence, with little to do; and the traditional practice of sharing out jobs by nationality has militated against competence and accountability.

Still, there is no mystery about the proximate cause of the financial crisis: US reluctance to pay its contributions. American hostility towards the UN has intensified in recent years because of the perceived failure of its peacekeeping operations in Somalia and Bosnia, and the widespread view that its bureaucracy is overstuffed and complacent. As part of its running war with the White House over the budget, Congress has repeatedly turned down even modest requests for UN funding.

The US government has presented the cash crisis as a lever which can be used to force the UN into badly needed reforms. Its campaign, both for better management and the abolition of unnecessary agencies, has deservedly won the sympathy of Washington's partners in the Group of Seven. The European Union, Japan and Canada are all willing, in principle, to increase their share of UN contributions in order to ease the US burden.

But the cause of UN reform will not be advanced unless the US government can win a promise from Congress that dues will be paid on time, as long as the necessary changes have been made.

Instead of merely threatening to kill the UN, the US legislature should be spelling out the terms on which it will allow the UN to live; that is the least Washington's partners in the Group of Seven and elsewhere can expect.

# Reform in Japan

After years of ruling the Japanese roost, the country's finance ministry faces the humiliating prospect of being cut down to size. Yesterday's decision by Mr Ryutaro Hashimoto, the prime minister, to support a study into the ministry's possible breakup, is only a small step on a long road. But it marks an irreversible break with the past because it ends the myth of the ministry's invincibility.

Even though he is looking to his own political advantage, Mr Hashimoto's willingness to think the unthinkable is welcome. While the ministry played a vital role in Japan's early industrialisation, in its post-war recovery, and in expanding international ties in the 1980s, it is contributing little to encourage the economic deregulation which Japan now needs.

The ministry could have reformed itself on its own terms when its prestige was still high in the 1980s. It was already apparent that its responsibilities ranged too wide – everything from budget-making and tax collection to financial markets supervision. But the ministry was so powerful that few dared question its authority.

The financial scandals of the 1990s have undermined that authority, notably revelations of links between financial companies and the yakuza. Worse, officials failed to deter financial institutions over-extending themselves in the boom and bust of the property market. Angry taxpayers are now being asked to pay Y686bn towards rescuing housing loan companies. They could face more such bills.

Mr Hashimoto's ruling Liberal Democratic Party was also caught up in financial scandals and in the over-heating of the property market. It paid the price for its failures when it lost its unquestioned grip on power in the 1993 general election. Mr Hashimoto and others have had to fight for survival in the messy coalition politics which have followed. Attacking the finance ministry offers Mr Hashimoto a good way of deflecting popular anger.

The LDP's favoured option is to create a new agency for supervising banking, securities and international finance. It should consider going further – for example, setting up new agencies for tax, customs and excise, and the mint. Such decentralisation would save much bureaucratic time-wasting. It would also allow officials to focus on their outside work instead of on the ministry's internal affairs. Successful reforms might also encourage politicians to look at other overweight ministries, such as transport and agriculture. Deregulation might finally gather pace. Whatever his reasons, Mr Hashimoto is moving in the right direction.

# Blair's big ideas

Constitutional reform is the closest the New Labour party gets to spelling out a "big idea". Its promises in this area are specific, and, even more unusually, radically different from the government's. But, though voters have been told what constitutional changes a Labour administration would propose, there has been little effort to explain why they are needed.

Mr Tony Blair's job yesterday in giving his first speech on constitutional reform since becoming leader was to fill this gap. As he noted, major reforms such as the creation of a Scottish Assembly need to have the widest possible consent if they are to be legitimate. And to have that consent – particularly among the English – they must be argued for.

Unavoidably, perhaps, the vision that emerged out of Mr Blair's speech was a negative one. We know that the present relationship between ruler and ruled is unsatisfactory, he argued, because there is widespread popular disaffection with government. And people feel disaffected because the UK's highly centralised system deprives them of a "stake" in the political process.

In essence, Mr Blair was telling voters that they should favour decentralising reforms such as Scottish devolution for the same reason that they would favour a crack-down on government "sleaze" and a written Bill of Rights. Namely, that each would, in various ways, reduce the centre's hold on power and make the system more responsive to citizens' demands.

For the moment, Mr Blair may think that criticising the status quo is sufficient. After all, each of the main reforms he proposes – Scottish and Welsh devolution, restoring an elected authority to London, reforming the House of Lords, and holding a referendum on electoral reform – would arguably be improvements to the current system. There is strong "bottom-up" support for the first two of these, and Mr Blair is right to make them the top priority.

But that a majority of Scots favour devolution will not be enough to ensure rapid passage through parliament. Nor should it be, if Mr Blair's comments about the "legitimacy" are to be taken seriously. He needs to state how he will address the question of the over-representation of Scotland in the House of Commons within a devolved system. And he still needs to explain why English people should consider Scottish devolution to be of a piece with Labour's other proposed changes. Saying that UK citizens lack a stake in their society is not the same as saying what, under Labour, their stake would eventually be.

# A country losing competitiveness

## Germany faces hard choices after today's jobless rise, says Wolfgang Münchau

When Germany learns later today that unemployment rose to a post-war record of over 4m in January, it will fuel the raging debate over the country's competitiveness.

German business leaders will blame high taxes and social security payments as well as inflexible working practices for pricing its products out of world markets. This week Mr David Herman, chairman of Opel, the carmaker, called for more flexible working time arrangements, labour market deregulation, lower social security contributions and inflation-only wage rises.

But although almost 11 per cent of the workforce is now jobless, there is a reluctance in the country to consider the strong measures many business leaders see as essential to restore the country's fortunes.

Unemployment hits Germany's regions with different force. Western Germany had a rate of 8.7 per cent in December against 14.9 per cent for east Germany. In the west, Bavaria has long had the lowest unemployment rate and Bremen the highest. The Ruhr, the Saarland and other pockets of heavy industry have above average rates.

The burden of unemployment also falls more heavily on older workers, with more than 20 per cent of the unemployed being 55 or over. Most are on gradual early-retirement schemes, during which they receive unemployment pay until eligible for a pension.

Employment costs are certainly a factor. According to VDA, the German motor industry association, unit wage costs – which take into account costs and productivity – are significantly lower in the UK, where they are 74.3 per cent of German levels. In the US, the figure is 55.9 per cent.

One solution to such differentials would be to allow the D-Mark to depreciate, but few Germans are willing to see this happen. Nor is there support for an increase in public spending to create jobs. Chancellor Helmut Kohl's policy of reducing the budget deficit to the target set at Maastricht for European monetary union leaves little scope for such an approach.

A trade union leader recently admitted that his members would revolt if he were to support looser monetary or fiscal policy – even if that would keep them in their jobs. And there was also little support from Germany's economists when Mr Heiner Flassbeck, chief economist of DIW, a leading economic institute, suggested the German obsession with stability might be a factor in the rise in unemployment.

The only policy proposal currently under serious consideration is the "alliance for jobs" suggested by Mr Klaus Zwickel, president of IG Metall, the metalworkers' union. He proposed that the union would restrain its wage demands in return for a binding commitment by employers to hire more workers.

**German unemployment**

As a % of total labour force


Source: Datastream

The proposal explicitly acknowledges the link between unemployment and wages – the first time this has been done by a union leader. But Mr Zwickel believed his proposal would "put employers on the spot". If high labour costs raised unemployment as the employers claimed, he reasoned, then lower real wages must reduce unemployment.

Leading economists called this line of argument pure sophistry. The economic ministry's advisory panel, a group of senior economists, said in a report this week that "a link between the promise of wage restraint and the demand for job guarantees has to be rejected. Such thinking misjudges the functioning of the labour market. In a market economy [the social partners] are neither entitled nor in the position to decide on the number of people employed."

It has also proved unpalatable to Gesamtmetall, the metal industry employers' federation. The stumbling block is Mr Zwickel's demand that the employers make a binding commitment to hire 330,000 new workers over three years, including 30,000 long-term unemployed.

Privately, many engineering employers say they are hard-pressed to keep their workforce at current levels, let alone hire new workers. Mr Herman of Opel believes unions will have to accept a series of cuts in their standard of living, including less sick-pay. "We have hit the limit of what business can sustain through legal conditions and wage agreements," he said.

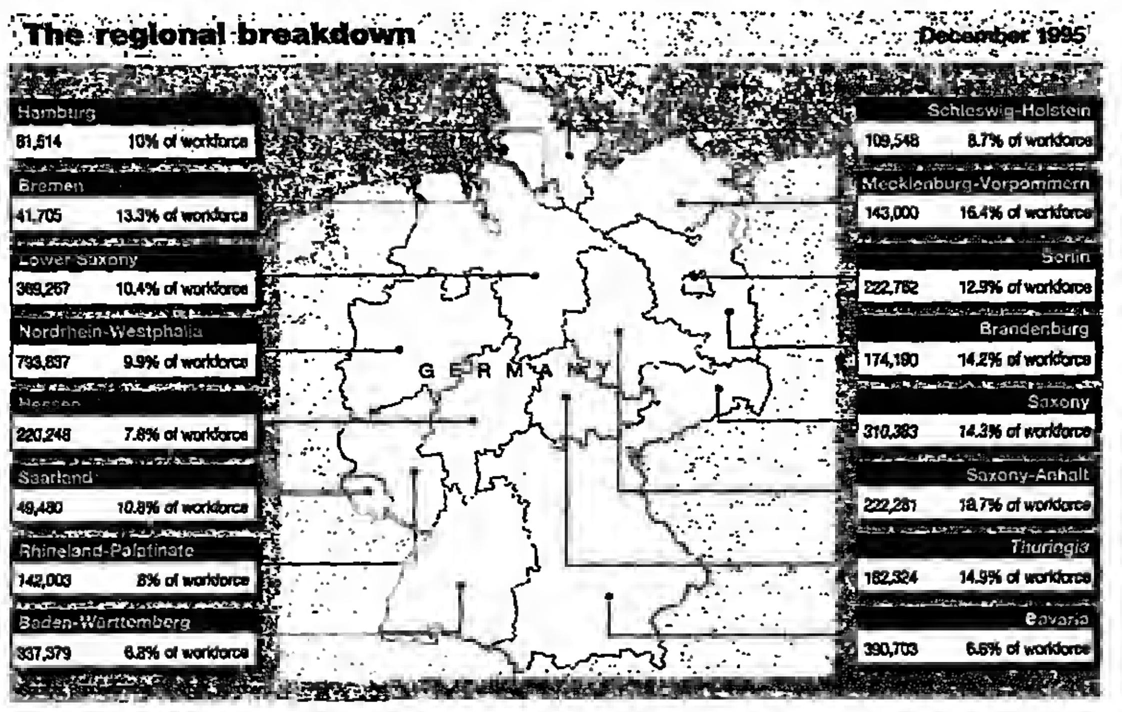
But although Mr Zwickel's "alliance for jobs" has been derided by most experts, it has been well-received by the public and politicians. It appears to have captured the attention of a public still eager to find a consensus way out of the employment crisis.

Most Germans are opposed to any idea of US-style labour market deregulation to create low-paid jobs – this is viewed merely as a form of hidden unemployment. The phenomenon of the working poor has received much publicity in Germany, where television programmes show shoe cleaners or bag-fillers at US supermarket check-outs working for low wages.

There is also a rejection of the idea that jobs lost in manufacturing can be made up in service industries. With a national belief that manufacturing industry will provide future employment growth, Germans devote much time to fretting over whether their industry can keep up with the US and Japan in developing new technologies and obtaining patents.

Germans are therefore likely to retain their preference for the shop floor over a futures trading room. But it is unlikely that the country will be able to create the jobs in manufacturing to take up the growing numbers of unemployed without more painful adjustments than are now on the political agenda.

**The regional breakdown** December 1995





Battle for jobs: workers from Daimler-Benz Aerospace protest against the proposed closure of a plant at Speyer under a restructuring plan

# The tide turns against Speyer

Like many residents of Speyer, a small town on the Rhine in southwest Germany, Karl-Adolf Fischer is finding the rise in German unemployment a new experience.

As an assistant at the local employment office, his main problem in the past has been to find skilled workers to fill the vacancies in Speyer's factories. The state in which the town lies, Rhineland-Palatinate, has been used to prosperity and is home to many of the country's successful Mittelstand companies, renowned in such industries as engineering.

But three of the town's biggest employers plan to lay off 1,000 workers this year, raising the number of people out of work in Speyer to more than 4,000 in a community of 50,000. "We thought we were an island of peace and quiet but all that is about to change dramatically," says Mr Fischer.

Until now, life in Speyer has had a slower feel than in more industrialised regions such as the Ruhr. Home to Germany's second biggest cathedral, Speyer has a pretty baroque centre which Chancellor Helmut Kohl, who ran the state before moving downriver to Bonn, likes to show off to visiting statesmen. The most recent was Mr John Major, last summer.

Even with an unemployment rate now above 10 per cent, Speyer is still better off than the unemployment black spots elsewhere in the state. The number of people out of work in Pirmasens and Kaiserslautern, west of Speyer, has risen to 13.5 per cent. The economies of the two towns have been hit by the decline of the traditional shoemaking industry and the withdrawal of US forces.

But the impending lay-offs in Speyer highlight trends that are affecting many parts of German industry. One of the plants, for example, is moving production of industrial heating pipes to Poland where employment costs are a fraction of those in Germany. Other companies are thinking of following suit.

The biggest blow to the town is the proposed closure of a parts plant owned by Daimler-Benz Aerospace (Dasa) under the group's restructuring plan. Its 700 employees include some of the town's most skilled workers, who will have difficulty finding similar employment locally.

"Where is there a future for any of us?" asks Mr Reinhold Weick, a 42-year-old technician who built loudspeakers at a local plant until it went out of business 18 months ago. He is now on an eight-week programme at the Siemens plant designed to improve his chances of finding another job by honing his presentation skills.

Mr Weick says too much money has been spent on reviving the economy of eastern Germany and on housing foreign asylum seekers and ethnic Germans from Russia of whom there are about 200 in Speyer. More should be done to keep jobs in Germany, he says, pointing to a recent effort by the government which set minimum wages to prevent cheap British, Irish and Portuguese labour undercutting German building workers.

Mr Karl-Heinz Schall, a turner who worked for 15 years at the BASF chemicals complex in nearby Ludwigshafen, is also attending a six-month course at the Siemens plant to keep him up to date with new lathe-operating techniques.

He says he needs to earn about DM17 (£7.50) an hour to make ends meet. Several jobs he has seen recently, offering hourly rates of about DM10, made little impression. "Those sort of jobs are not worth getting out of bed for."

Michael Lindemann

# · OBSERVER ·

## B is for boring?

■ Poor little Bonn. First Pauline Neville-Jones, the most senior woman in the UK Foreign Office, interprets the offer of the ambassadorship to this particular small town in Germany as her cue to leave the diplomatic service. Now the US ambassador Charles Redman, who only arrived on the banks of the Rhine in October 1994, is leaving Germany – and indeed the Foreign Service, to seek his fortune in the private sector.

The US embassy in Bonn has seen more than its fair share of removal vans recently. Between 1989 and 1994, Vernon Walters, Robert Kimmitt, and Richard Holbrooke, all passed through. Kimmitt left in 1993, for Lehman Brothers, the investment bank which had housed Richard Holbrooke till the latter was plucked out to join the Clinton administration – and was sent to Bonn. Redman, who had beavered away for a year as special envoy to the former Yugoslavia without having much to show for it, was Holbrooke's replacement in Bonn. That Holbrooke should then jet off a year later and make his name brokering a peace deal in relatively short order, may have left Redman feeling a trifle hard done by.

Meanwhile, the speed of turnover of American ambassadors seems to have been positively beneficial to the relationship between the two governments, with Bill Clinton and Helmut Kohl more than usually pally just at the moment.

Makes one wonder how necessary ambassadors really are these days.

## Slippery slope

■ As the Spanish city of Granada gears up for the World Alpine Skiing Championships, due to begin in the nearby Sierra Nevada resort on Sunday, it seems that winter sports are not winning friends among all the local inhabitants.

Last year, the championships were postponed for lack of snow. Now the city council is being sued before the event starts – by a beggar.

Following the example of another conservative-led council in Alicante, which has banned begging, Granada has rounded up all its mendicants and put them in hostels until the skiing is over.

But it did not reckon with Mariano José Martínez Grimán, who says the measure violates his right "as a Spanish and European citizen" to ask for alms, not to mention other people's right and duty to give them. He has filed a suit to this effect in the local court against mayor Gabriel Díaz Berbel, and also cites the labour authorities for their failure to find him a decent job.

His written complaint relates how, the weekend before last, he was begging "in a dignified fashion and without bothering anyone" outside a church, when "two individuals offering no identification and with mobile phones" took him away.

## Urban matters

■ Hazardous business, being a journalist in Poland. Jerzy Urban, the editor of Nie, a satirical weekly, was this week found guilty of breaking state secrecy laws. His punishment from a local Warsaw court? A complete ban on his editing or writing in newspapers for a year. He also picked up a 10,000 zloty ($4,000) fine and a year's suspended prison sentence.

Urban, who is one of the country's best columnists, gained notoriety in the 1980s as the communist government's press spokesman, defending martial law with relish. Come the dawn of freedom in 1989, he founded Nie. The weekly's scurrilous attacks on successive Solidarity governments and the Catholic Church have found a wide audience – and made Urban a rich man.

In 1992, Nie published extracts from still secret files dating back to the 1950s which showed that one of the closest advisers to the current prime minister had in the past agreed to co-operate with the security police. Hence the current court case.

Yesterday, even Gazeta Wyborcza, the daily newspaper whose roots are in Solidarity, was, grudgingly, on side.

"Nie's contents are often disgusting", it wrote, "but we have no choice but to express our solidarity with a sentenced journalist and against a court in our independent country".

## Makes no cents

■ Good to see that the Federal Reserve is going to such lengths to protect the consumer.

This being a leap year, the Fed has ruled that banks can calculate the interest on customers' accounts using either 365 or 366 days as a basis – but only if the account is opened before 29 February. Otherwise, they have to use a 365-day year, which means banks have to pay out more in interest.

The banks complain – as is often the case when something doesn't suit them – that adjusting for this rule creates havoc in their computer systems. But what exactly is the impact of this pioneering piece of consumer protection?

According to Observer's calculations, which assume an interest rate of 4 per cent, if you opened an interest-bearing account with $1,000 on March 1 and left it there, you would be around 9 cents richer by the end of the year.

Which would really make a difference to one's personal net worth.

Financial Times

## 100 years ago

**Railways in China**
*Shanghai:* The Cantonese Taotai Hsu yin-snag, a brother of the president and one of the great Boards at Peking and nominee of the Princes of Kung and Ching, has just signed a contract with Colonel Jeffries, representing an Anglo-American syndicate, for the construction of a broad guage railway between Hankow and Peking. The contract provides for many valuable sub-concessions, valid for the next fifty years, and must be regarded as marking the real beginning of railway construction in China.

## 50 years ago

**Mexican Eagle Oil pact**
An agreement between Britain and Mexico, signed at Mexico City yesterday, provides for the valuation of the properties rights and interests of British subjects in the expropriated Mexican Eagle oil company and its subsidiaries.

The valuation is to be made by experts within a year and the amount of compensation they decide upon will be paid in US dollars. Payment will be completed within seven years.

# FINANCIAL TIMES
Thursday February 8 1996




Influential journal ranks most powerful tycoons

## Oil barons and bankers top Russian business list

By Chrystia Freeland in Moscow

Oil barons and an aggressive new breed of bankers dominate a league ladder of Russia's most powerful business leaders published this week by an inflnential financial journal.

The rankings were fixed by 50 Russian economists and business analysts using a scale of 1 to 10 on three criteria: influence on the development of a market economy in Russia; professlonal skills; and company assets.

Oil and gas company managers bave been the big movers up the ladder over the past year, according to the magazine, Ekonomika i Zhizn. On the way down are the chairmen of some of Russla's weaker banks.

Undisputed leader of the pack is Mr Rem Viakherev, the chairman of Gazprom, Russia's monopoly natural gas producer whicb controls 30 per cent of the world's known gas reserves.

He and the third-ranking Mr Vagit Alekperov, president of Russian oil giant Lukoil, typify the members of tbe old Soviet indnstrial alite who have smoothly transformed their political power under communism into economic influence in an emerging capitalist system.

**The most powerful 10**

Rem Viakherev, Gazprom
Mikhail Khodarkovsky, Menatep
Vagit Alekperov, Lukoil
Vladimir Potanin, Oneximbank
Vladimir Gussinsky, Most
Boris Berezovsky, Logovaz
Alexander Smolensky, Stolichnyi Bank
Vladimir Vinogradov, Inkombank
Sergei Rodionov, Imperial
Yakov Dubinetsky, Promstroibank

The red directors bave been joined by a handful of brasb bankers who were in their 20s when the Soviet Union collapsed, bnt have taken advantage of the economic chaos of the past five years to build financial and industrial empires.

Mr Mikhail Khodarkovsky, the 32-year-old president of Menatep, is ranked second, Mr Vladimir Potanin, the 34-year-old president of Oneximbank, is fourth and Mr Vladimir Gussinsky, the flamboyant former theatre director who runs Most bank and owns mnch of Russia's liberal media, is fifth.

In a sign that competition for control over oil and gas reserves is still the most important economic issue, both Mr Khodarkovsky and Mr Potanin bave acquired significant oil companies in recent months.

But the ranking, revised each quarter, also exposes the fragility of Russia's *nouveaux riches* financiers, wbose fortunes bave been built on a cosy foundation of political connections. For example, Mr Oleg Boyko, a banker, was 22nd in the overall ratings for 1995 – but finished 42nd in the last three months of the year.

The ranking also reveals how, in at least one respect, capitalist Russia resembles the communist Soviet Union – only one woman has made it into the top 50.

## Gramm's US presidential bid hit by Buchanan poll victory

By Jurek Martin in Washington

Senator Phil Gramm's campaign for the Republican party's presidential nomination appeared on the rocks yesterday following a severe defeat at the hands of Mr Patrick Buchanan in Tuesday night's Louisiana party caucuses.

Mr Buchanan, the rightwing polemicist popular among Christian anti-abortion activists, beat Mr Gramm from neighbouring Texas by 62 per cent to 38 per cent in the vote of about 30,000 party members. He therefore won 13 delegates to the party's August convention against Mr Gramm's eight.

Mr Gramm tried yesterday to put the best face on it, saying at least he had eight more delegates than Senator Bob Dole and Mr Steve Forbes, leaders in the field of nine. But he admitted that failure to finish in the top three in the Iowa caucuses next Monday would mean "a long hard look at where we're going".

Even worse for Mr Gramm as he heads for Iowa was the fact that he was in Louisiana on Tuesday and not in the Senate as it debated the farm bill. The Iowa media yesterday made much of the fact that his vote would have broken a Democratic filibuster against the legislation, which enjoys wide support in the state.

The damage to the senator, who professes a similar conservatism to Mr Buchanan but with greater emphasis on economics, was deepened by the fact he was caught in a trap of his own making.

He had encouraged Republicans in Louisiana to hold a vote, apparently tailored to his candidacy, which pre-empted both Iowa and the first primary in New Hampshire on February 20. He made similar, but unsuccessful, attempts in Arizona and Delaware.

All the other leading candidates except Mr Buchanan boycotted Louisiana so as not to offend voters in Iowa and New Hampshire. So did most of the state's 483,000 registered Republicans, many of whom said they were unaware the caucuses were even being held.

The contest therefore became a race billed by both men as a battle for the leadership of the party's right wing against Mr Dole and Mr Forbes. Mr Gramm organised long and hard in Louisiana but to no avail against Mr Buchanan's Christian grassroots troops.

Mr Dole will probably profit most from Louisiana. His campaign has always feared the well-financed Mr Gramm more than Mr Buchanan, whose extreme nationalist and protectionist views make him no more likely a nominee than they did in 1992 when he ran against President George Bush.

Drop in US trade deficit, Page 5
A moral message, Page 10

## US-style talks urged for N Ireland

By John Murray Brown in Dublin and John Kampfner and Jimmy Burns in London

The government of the Republic of Ireland yesterday proposed a Bosnia-style conference to persuade Northern Ireland's political parties to agree an agenda for all-party talks.

The surprise announcement by Mr Dick Spring, deputy prime minister and foreign minister, came after talks with Sir Patrick Mayhew, chief Northern Ireland minister in the British government, and received a cool response from British ministers.

Pro-British parties in Northern Ireland reacted furiously, describing the proposal as a ploy by the Irish Republic to wrest back the initiative as Britain presses ahead with its plan for direct elections to a constitutional convention.

Mr Spring envisages two days of intensive discussions in the second half of February "designed to bring together on a voluntary basis all parties and both governments in a single venue" to pave the way for substantive negotiations.

The meeting, according to Dublin officials, would operate on a "proximity basis, broadly similar to that which pertained at the Dayton talks which achieved the breakthrough in the conflict in former Yugoslavia". The proposal made clear no party would be obliged to share a table with any other party or government.

Matters to be discussed would include the report by former US Senator George Mitchell, head of the international body on the decommissioning of paramilitary weapons. They would also include the "basis, participation, structure, format and agenda of all-party negotiations", and "whether and how an elected body or an electoral process could play a part in such negotiations".

Mr Michael Ancram, a junior Northern Ireland minister in the British government, described the idea as "at best, premature".

One factor behind the British approach is thought to be the belief that there is no immediate danger of the IRA ceasefire ending because of internal splits.

Optimism on ceasefire, Page 6

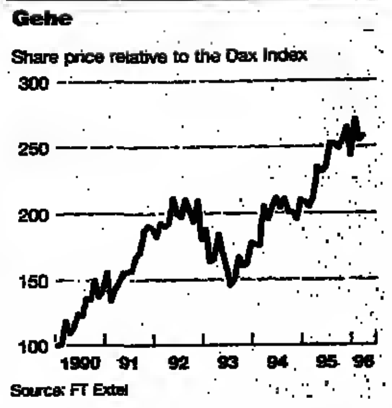
THE LEX COLUMN

## Ringing Packard's Bell

Yesterday's announcement from Packard Bell of its reincarnation as a "global computer powerhouse" is a study in obfuscation. The US personal computer maker, which is believed to have been suffering from liquidity problems, spoke grandly of $650m in new investment – implying that it has just received a massive cash injection. In fact, it has received only $283m in cash from Japan's NEC; the new investment from France's Bull is in the form of its lossmaking PC business, Zenith, rather than hard cash.

Obfuscation also surrounds what NEC and Bull, which already each own 20 per cent of Packard, are getting in return. Packard says its partners will receive convertible stock but will not reveal the conversion terms. It appears, though, that the arrangement will eventually give NEC and Bull, in which the Japanese company holds a stake, joint control of Packard. That is probably just as well. The main value of the alliance would be if Packard and NEC developed a single product line, share factories and combine distribution channels. Cost reductions through economies of scale are the best way to make profits in the increasingly cut-throat PC market. At present, such fully-fledged integration is not envisaged. But with NEC/Bull apparently in position to take eventual control, the creation of Packard's global computer powerhouse may be only a matter of time.

FT-SE Eurotrack 200: 1663.8 (+1.5)



Source: FT Extel

### Lloyds Chemists

Yesterday's counter-offer for Lloyds Chemists from Germany'a Gehe leaves UniChem in a sticky situation. The prospect of competing in the pharmaceutical wholesale and retail markets against a Gehe enlarged by last year's acquisition of AAH and now by the purchase of Lloyds is daunting. There is no comparable domestic target for UniChem to chase, and tight regulatory control of UK pharmacy licences makes it difficult to acquire retailing outlets on an ad hoc basis.

But trumping Gehe's £534m ($900m) cash bid may be dangerous. Gehe's ability to pay cash gives it a natural advantage. UniChem, on the other hand, is offering a mixture of cash and shares.

If it seems to be overstretching its relatively small balance sheet, its own share price could suffer, impeding its ability to offer significantly more.

There is an obvious way to leverage any offer for Lloyds: by finding buyers for its non-core businesses. Holland and Barrett, its healthfood chain, looks attractive, but its struggling drugstore operation could prove difficult to sell.

The danger for both Gehe and Unichem is that the heat of battle could tempt them into overpaying. The latest bid puts Lloyds roughly on a market rating. Given the *limitations* of some of its businesses, significantly raising that will soon make the price look expensive.

### GPA

GPA Group, the Irisb aircraft leasing company, is once again staring into the abyss. Its plan to refinance its heavy debt burden by securitising aircraft leases is being blocked by a single US institution, the Pennsylvania Public School Employees' Retirement System. Unless it can persuade the fund to jump on board promptly, the plan will have to be withdrawn, leaving the company with no prospect of repaying the bank debt which falls due next year.

In reality, the chances of GPA finally going to the wall as a result of this latest contretemps are small. The US fund, which holds several categories of debt, appears to be trying to use its leverage to get a better deal on its preference shares, not included in the refinancing. But neither party has much room for manoeuvre: GPA is limited as much by the legal difficulties of favouring particular categories of creditors as by its own dire financial straits. And the pension fund has no incentive to push GPA into liquidation – because it would then lose the whole of its $100m preference share investment.

But even if it pulls off the refinancing, GPA's wings will still have been drastically clipped. The securitisation would take 229 of its 359 aircraft off-balance sheet, leaving it with a much smaller asset base. Anyway, General Electric of the US may well decide to take up its option to buy GPA at $65m, which runs until 2001. Since aircraft lease prices have at last started to recover, this could well prove an attractive deal.

### UK pensions

What is striking about Mr Peter Lilley's attack on the Labour party's pensions policy is that the argument is taking place on common ground. Both parties want to encourage people to save more without – if possible – having to force them to do so. True, the parties' solntions are different. But by trying to encourage group personal pensions, for instance, Mr Lilley is targeting precisely the under-savers that Labour is worried about. Because personal pensions cost disproportionately more to the low-paid, pooling the costs is particularly attractive for them. As far as providers of savings products are concerned, both parties are likely to end up finding them new customers.

### BT/Viag/RWE

In pursuing its international strategy, BT is developing a fondness for "cascade" shareholdings. The latest deal with Germany's Viag and RWE, which involves setting up three separate companies, is a case in point. One, supplying business customers, will be owned by BT and Viag; another, supplying residential customers, will be owned by BT and RWE. Each will have cross-shareholdings in the other and, in turn, own the third company – a telecoms infrastructure business.

Why this elaborate structure? For a start, including RWE eliminates a potential competitor; the cascade also means BT will not have to spend the full DM3bn-DM4bn needed for the venture to rival Deutsche Telekom. That said, BT could still end up paying nearly half the total investment, while having to share control with its German allies. Unlike Mr Rupert Murdoch, one of its other allies, BT is not yet a master in the art of investing little while controlling much.

Additional Lex comment on Videotron, Page 18

## Tokyo study

Continued from Page 1

assume that the immediate aim of the finance ministry review is more crude: to deflect public attention from politicians' own role in the *jusen* mess.

Both the LDP and the opposition New Frontier party have former finance ministers – including Mr Hashimoto – who were in office when the *jusen* were pouring money into what turned out to be questionable property schemes.

## Brussels shelves pensions portability plan

Continued from Page 1

legislation that would make private pensions portable.

However, Mr Flynn was told to refer the matter to a newly-established working party examining difficulties encountered by individuals transferred across borders. The group has six months to study the problem and to decide whether EU legislation is necessary.

The German commissioners were not alone in arguing against new legislation. Mr Jacques Santer, the Commission president, was concerned that the proposals would interfere with domestic pension legislation.

"Germany does not want to change its law," said a German official in Brussels. "We have a system that rewards employees who stay a long time with the same company. What the Commission wants is not compatible with the German system."

Of the 20 commissioners, those who supported the drawing up of proposals were the two French commissioners, plus the Dutch, Greek and Danish.

Mr Flynn had argued that roughly half of all EU workers have private or company pensions to supplement their state pensions. Co-ordination among member states already exists for state pension schemes, but the growth in supplementary pensions has meant that many workers would lose out in a cross-border transfer.

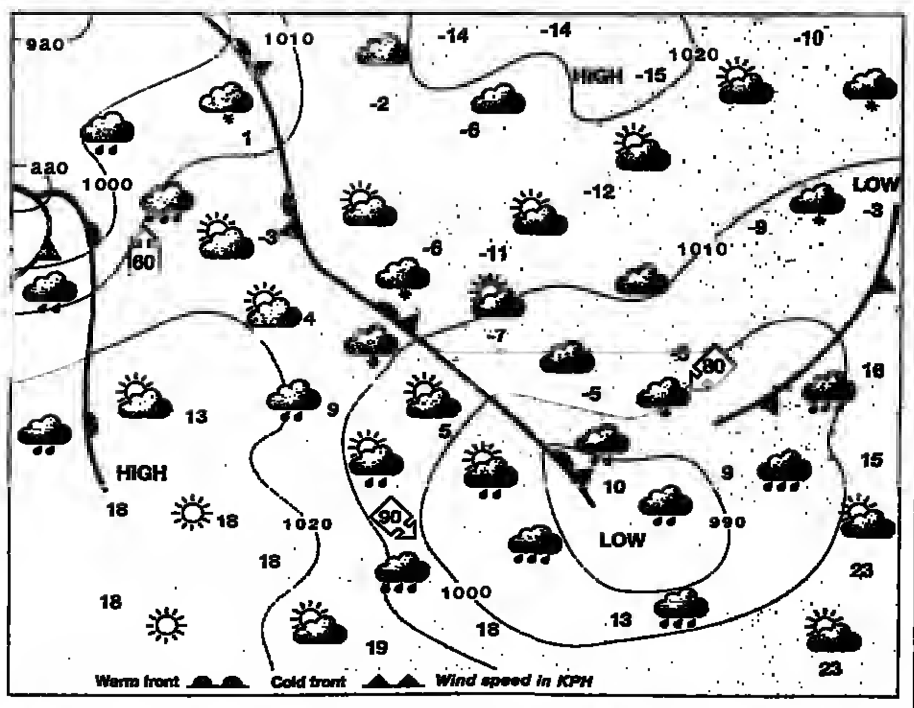
FT WEATHER GUIDE

### Europe today

A weak frontal zone over the eastern UK will move east, giving way to brighter or clearer skies. A new frontal zone will move in from the south-west, producing cloud, rain and wind in Ireland. The previous frontal zone will bring cloud and occasional light rain to France and snow to the Alps. Spain, Portugal and northern Italy will be rather sunny. Southern Italy, Greece and Turkey will have numerous heavy showers. The Balkans will be cloudy with snow and there will be a strong gale along the Black Sea coast. Storm force winds are expected south of Sicily. Poland and parts of Russia will be mostly sunny but cold. Southern Scandinavia will be sunny but there will be snow further north.

### Five-day forecast

A high pressure system will remain over north-eastern Europe bringing little change to this region. An active low pressure system will reach the British Isles by Friday, producing snow followed by showers over the Benelux and Germany. Spain and Portugal will be dry although showers are expected on the northern coast. The central and eastern Mediterranean will remain unsettled with showers.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**TODAY'S TEMPERATURES**

| Maximum Celsius | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Beijing | fair | -2 | Caracas | sun | 29 | Faro | fair | 17 | Madrid | sun | 12 | Rangoon | sun | 33 |
| | | | Belfast | sun | 3 | Cardiff | fair | 5 | Frankfurt | cloudy | -4 | Majorca | shower | 14 | Reykjavik | snow | 0 |
| Abu Dhabi | sun | 25 | Belgrade | snow | -5 | Casablanca | fair | 17 | Geneva | sleet | 2 | Malta | shower | 12 | Rio | fair | 32 |
| Accra | fair | 32 | Berlin | sun | -8 | Chicago | cloudy | 7 | Gibraltar | sun | 15 | Manchester | fair | 3 | Rome | fair | 8 |
| Algiers | shower | 15 | Bermuda | shower | 20 | Cologne | cloudy | -4 | Glasgow | cloudy | 3 | Manila | shower | 30 | S. Frsco | shower | 17 |
| Amsterdam | fair | -2 | Bogota | fair | 20 | Dakar | fair | 24 | Hamburg | sun | -8 | Melbourne | shower | 20 | Seoul | cloudy | 0 |
| Athens | shower | 14 | Bombay | sun | 33 | Dallas | sun | 22 | Helsinki | snow | -11 | Mexico City | sun | 21 | Singapore | cloudy | 30 |
| Atlanta | shower | 15 | Brussels | cloudy | 0 | Delhi | rain | 21 | Hong Kong | cloudy | 19 | Miami | sun | 24 | Stockholm | snow | -7 |
| B. Aires | fair | 28 | Budapest | cloudy | -3 | Dubai | sun | 25 | Honolulu | fair | 28 | Milan | sun | 6 | Strasbourg | cloudy | 0 |
| B.ham | fair | 3 | C.hagen | fair | -5 | Dublin | sun | 5 | Istanbul | rain | 8 | Montreal | snow | 1 | Sydney | fair | 30 |
| Bangkok | fair | 31 | Cairo | fair | 21 | Dubrovnik | rain | 8 | Jakarta | shower | 29 | Moscow | sun | -14 | Tangier | fair | 16 |
| Barcelona | sun | 14 | Cape Town | fair | 28 | Edinburgh | cloudy | 3 | Jersey | fair | 4 | Munich | cloudy | -5 | Tel Aviv | fair | 25 |
| | | | | | | | | | Karachi | sun | 31 | Nairobi | fair | 29 | Tokyo | cloudy | 10 |
| | | | | | | | | | Kuwait | fair | 23 | Naples | fair | 8 | Toronto | snow | 1 |
| | | | | | | | | | L. Angeles | sun | 24 | Nassau | sun | 25 | Vancouver | rain | 11 |
| | | | | | | | | | Las Palmas | cloudy | 21 | New York | cloudy | 6 | Venice | sun | 3 |
| | | | | | | | | | Lima | sun | 27 | Nice | fair | 12 | Vienna | cloudy | -8 |
| | | | | | | | | | Lisbon | fair | 16 | Nicosia | shower | 15 | Warsaw | sun | -11 |
| | | | | | | | | | London | sun | 3 | Oslo | cloudy | -6 | Washington | shower | 9 |
| | | | | | | | | | Lux.bourg | cloudy | -3 | Paris | cloudy | 4 | Wellington | cloudy | 16 |
| | | | | | | | | | Lyon | rain | 3 | Perth | cloudy | 32 | Winnipeg | cloudy | -5 |
| | | | | | | | | | Madeira | cloudy | 18 | Prague | fair | 12 | Zurich | snow | 1 |